RM 4

Siri Kertas Kerja IKMAS / *IKMAS Working Paper Series*
No. 1 (January) 2003

GOVERNANCE OF THE WORLD: WTO AND IMPLICATIONS ON INDUSTRIAL DEVELOPMENT IN ASEAN

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Abstract

Given the importance of WTO and ASEAN's trade dependence, the objectives of this paper are: (i) to review the UR commitments and achievements in the manufacturing sector for the ASEAN-5, that is Indonesia, Philippines, Malaysia, Singapore, and Thailand, (ii) to assess the major challenges and opportunities facing the ASEAN-5 members of the WTO, and (iii) to consider WTO-consistent policy options that can be utilized to facilitate restructuring of the manufacturing sector in the respective economies.

While Malaysia, Singapore and Thailand has committed to reduce their average trade-weight MFN tariffs by 10.8 per cent, 7.1 per cent, 58.9 per cent and 28.0 per cent respectively, Indonesia chose to bind 94 per cent of its tariff lines. As of the year 2002, it was found that the ASEAN-5 are moving progressively toward fulfilling their respective Uruguay Round commitments at the country level. However there is still a wide dispersion in the tariffs of these countries with the tariff peaks found in the automobile sector, except for the case of Singapore. Moreover, additional taxes or surcharges imposed on imported goods may off-set the reduction in tariffs in these countries.

The major challenges that are encountered by the ASEAN-5 are China's accession into the WTO in 2001, the future of industrial policy, and new negotiations and new issues. Hence in the short and medium-term, the ASEAN-5 will have to increase trade facilitation with China in order to increase their access in the Chinese markets. Each will also have to increase their research capacity and their ability to negotiate at the global level. At the same, industrial targeting will be constrained and future industrial development will have to utilize policies that are sectorally-neutral.

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I INTRODUCTION

The conclusion of the Uruguay Round (UR) negotiations in 1994 and the subsequent establishment of the World Trade Organization (WTO) in January 1995 introduced several new dimensions to multilateral trading. First, the new organization, WTO, is a full-fledged international organization with a binding dispute settlement mechanism (DSM) unlike its predecessor, the International Trade Organization (ITO). Second, WTO has an expanded mandate and membership, of which the majority is the developing and transition economies. Third, most of the WTO agreements contain provisions for reviews of their operations within five years, thereby introducing a dynamic element into the construction and enforcement of rules for the conduct of multilateral trading. The search for policy directions that are WTO-consistent becomes increasingly urgent for the joint ASEAN-WTO members as the transition period for the UR commitments moves to an end.

Given the importance of the WTO and ASEAN's dependence on trade, the objectives of this paper are: (i) to review the UR commitments and achievements in the manufacturing sector for the ASEAN-5, that is, Indonesia, Philippines, Malaysia, Singapore, and Thailand, (ii) to assess the major challenges and opportunities facing the ASEAN-5 members of the WTO, and (iii) to consider WTO-consistent policy options that can be utilized to facilitate restructuring of the manufacturing sector in the respective economies.

The paper is divided into 6 sections; after the Introduction in section 1, an overview of the manufacturing sector in the ASEAN-5 is presented in section 2 to furnish the necessary background for the paper. This is followed by a review of the UR commitments and achievements in section 3 while the challenges and opportunities available to the ASEAN-5 manufacturers are analyzed in section 4. Policy options for furthering the development of the manufacturing sector is discussed in section 5 and a summary of the main findings of this paper is given in the conclusion in the final section of this paper.

II MANUFACTURING SECTOR IN THE ASEAN-5

Based on Table 1, all the ASEAN-5 experienced higher growth in Gross Domestic Product (GDP) in the 1990s compared with the 1980s with the exception of Indonesia and Thailand. While the manufacturing sector registered the highest rate of growth in the 1980s and 1990s for Indonesia, Malaysia and Thailand, the service sector grew the most rapidly for Philippines and Singapore.

Table 1 : Growth of Output in the ASEAN 5, 1980-99

Country	Gross Domestic Product Average annual (%) growth		Agriculture Average annual (%) growth		Manufacturing Average annual (%) growth		Service Average annual (%) growth	
	1980-90	1990-99	1980-90	1990-99	1980-90	1990-99	1980-90	1990-99
Indonesia	6.1	4.7	3.4	2.3	12.6	7.6	7.0	4.0
Malaysia	5.3	7.3	3.4	0.2	9.3	9.7	4.9	8.0
Philippines	1.0	3.2	1.0	1.4	0.2	2.9	2.8	4.9
Singapore	6.7	8.0	-6.2	0.4	6.6	6.7	7.6	8.0
Thailand	7.6	4.7	3.9	2.5	9.5	6.7	7.3	4.4

Source: *The World Bank, World Bank Development Indicators 2001 (2001)*

However manufacturing value-added as a percentage of the GDP is the second largest for all the ASEAN-5 in both decades (Table 2). Nevertheless while the contribution of manufacturing to GDP grew between 1990-1999 for Indonesia, Malaysia and Thailand, it registered a converse fall for the Philippines and Singapore.

By 1998, the production structure of Malaysia and Singapore is much more skewed than the other ASEAN economies as 42 per cent and 60 per cent, respectively, of their manufacturing value-added are contributed by the machinery and transport sub-sector (Table 3).

Table 2: Structure of Output in the ASEAN-5, 1990-99

Country	GDP $ million		Agriculture value added (%) of GDP		Manufacturing value added (%) of GDP		Service value added (%) of GDP	
	1990	1999	1990	1999	1990	1999	1990	1999
Indonesia	114,427	142,511	19	19	21	25	41	37
Malaysia	44,024	79,039	15	11	24	32	43	43
Philippines	44,331	76,559	22	18	25	21	44	52
Singapore	36,638	84,945	0	0	27	26	65	64
Thailand	85,345	124,369	12	10	27	32	50	50

Source: *The World Bank, World Bank Development Indicators 2001 (2001)*

Table 3: Structure of Manufacturing in the ASEAN-5, 1990-98

Country	Structure of Value added in Manufacturing $ million		Food, Beverages & Tobacco %		Textiles & clothing %		Machinery & Transport equipment %		Chemical %		Other manufacturing %	
	1990	1998	1990	1998	1990	1998	1990	1998	1990	1998	1990	1998
Indonesia	23,643	23,774	27	16	15	18	12	20	9	9	37	36
Malaysia	10,655	20,774	13	9	6	4	31	42	11	8	39	36
Philippines	11,008	14,254	39	33	11	9	13	15	12	13	26	29
Singapore	9,968	19,092	4	3	3	1	53	60	10	10	29	25
Thailand*	23,217	34,360	24	55*	30	5*	19	8*	2	8*	26	24*

Note: There is no data for Thailand for 1998 and the latest shown is for 1997.
Source: *The World Bank, World Bank Development Indicators 2001 (2001)*

On the other hand, the largest manufacturing sub-sector in terms of its contribution to manufacturing value-added is food, beverage and tobacco in Philippines and Thailand in the same year. The production structure of Indonesia is more dispersed with the contribution of food, beverages and tobacco, textiles and clothing, and machinery and transport to manufacturing value-added standing at 16 per cent, 18 per cent, and 20 per cent respectively, in 1998. However Philippines, Malaysia and Singapore experienced a similar shift in the growing importance of the machinery and transport sub-sector and the declining importance of food, beverages and tobacco and textiles and clothing between 1990-98 (Table 3). In the case of Indonesia, textiles and clothing as well as the machinery and transport sub-sectors grew in importance in terms of their contribution to total manufacturing value-added in Indonesia for the same period. As for Thailand, food, beverages and tobacco as well as chemicals' share in total manufacturing value-added grew between 1990-98 while the contribution of the other sub-sectors fell.

establishment of the WTO, all WTO members have become parties to the Agreement on Technical Barriers to Trade (TBT) and the Agreement on Sanitary and Phytosanitary Measures (SPS). The former agreement essentially specifies the requirements for technical regulations, standards, and conformity assessment procedures for products and production methods. Nonetheless governments retain the freedom to choose the standards for their respective countries and hence can also choose whether or not to adhere to international standards. WTO members are, however, encouraged to enter into negotiations for mutual recognition of results of each other's conformity assessment procedures. On the other hand, the SPS Agreement deals with measures whose purpose is to protect human or animal health from food-borne risks, animal or plant-carried diseases or pests. Both agreements therefore try to reduce arbitrariness in decision-making and instead encourage consistent decision-making by establishing national measures that are in line with international standards, guidelines and recommendations.

WTO also addresses the reporting and valuation of goods at the border since customs procedures can also greatly affect trade. Further, in order to simplify transactions, the Harmonized System (HS) is also encouraged for specifying trade flows and tariff rates.

At the same time, several contingent protection measures are permitted that allow countries to suspend market access that was previously agreed. These exceptions to MFN and binding principles of WTO include actions taken against dumping, actions taken against prohibited subsidies and emergency measures to limit imports temporarily to "safeguard" domestic industries from a surge in imports. In the case of dumping, the WTO Anti-Dumping Agreement clarifies the methods used for ascertaining whether dumping has occurred. However measures to counter dumping can only be applied if the dumping action is hurting the industry in the importing country. For subsidies, the WTO Agreement on Subsidies and Countervailing Measures disciplines the use of subsidies by WTO members and regulates the actions that member countries can take to counter the effect of the subsidies. Under the WTO Agreement on Safeguards, a WTO member may restrict imports of a product on a temporary basis if its domestic industry is injured or threatened with injury as a result of a surge in imports.

Of these measures, the provisions on subsidies and countervailing duties is likely to reduce its usage as the UR agreement removed some of the inconsistencies in the previous agreements by explicitly defining it and categorizing them as prohibited, actionable and non-actionable. Prohibited subsidies are those that are contingent on export performance or on using domestic rather than imported inputs while actionable subsidies are those that cause adverse effects on other countries. On the other hand, non-actionable subsidies are those for research, for developing disadvantaged regions, and to meet environmental requirements.

Apart from the agreement on goods, the agreement on Trade-Related Investment Measures (TRIMs) that was achieved at the UR represent an attempt to govern investment by including measures that counter the trade-restrictive and trade-distorting effects of a country's laws regarding foreign investment. Consequently, TRIMs mainly outlaws certain conditions that are attached to the foreign direct investment policies of host economies. For example, TRIMs prohibits the use of local content requirements and trade and/or foreign exchange balancing requirements as these are deemed to violate the national treatment principle of GATT. TRIMs also outlaws restrictions that limit the imports of foreign firms and constraints on their exports.

The UR agreements also cover the issue of intellectual property rights as the Trade-Related Intellectual Property Rights (TRIPs) Agreement provide the minimum standards for the protection of intellectual property such as patents, copyright, industrial designs, and geographical indications.

Due to growing awareness of the trade-restrictive effects of discriminatory procurement practices, 12 WTO members (EU counted as one) are bound by the "plurilateral" Agreement on Government Procurement (GPA). The agreement basically outlines the procedures for providing transparency of laws, regulations, procedures, and practices regarding government procurement to ensure non-discrimination. Of all the ASEAN-5, Singapore is the only party to this agreement.

Table 6: Tariff-Type Measures Restricting Imports and Exports

Country	Tariffs & tariff like measures	Range of tariffs	Average tariff levels	Products with higher than average tariffs, bound/unbound	Restrictions/ Subsidies on exports	Preferential Agreements
Indonesia	Imports surcharges, value-added tax, and luxury tax.	59.4 per cent of rates between 0 and 5 per cent. Aims to establish a three-tier tariff structure (0, 5, 10 per cent) by 2003.	8.9 per cent in 1999 compared with 20 per cent in 1994 (average unweighted); 36.9 per cent average bound-tariff-rate on industrial products.	Products for which tariff bindings exceed 40 per cent include automobiles, iron, steel, and some chemical products	Minimum export prices on lumber, and export taxes on lumber and logs	ASEAN Free Trade Area (AFTA)
Malaysia	Ad valorem; 500 specific, mixed and alternative duties conceals very high ad valorem rates; for example, about 100 specific duties involved rates with ad valorem equivalent of 145 percent	14.2 per cent tariff lines > 20 per cent; 23.6 per cent rates > 15 per cent; several tariff lines have rates > 100 per cent; peaks up to 145 per cent.	9.45 per cent (average applied MFN rate); 9.1 per cent average bound rate for industrial goods.	Mainly automobiles and motorcycles, alcoholic beverages, plastic resins, float glass, and imported instant film	Export restrictions on 10 specific woods	AFTA
Philippines	Excise tax	Maximum tariff reduced to 30 per cent in 1999	Applied tariffs were reduced from 26 per cent in 1992 to 10 per cent in 1999 and further reduced to 8 per cent in 2000. 24.6 per cent average bound tariff on industrial products	Tariffs for CBUs reduced from 40 per cent to 30 per cent on 1/1/2000.		AFTA.
Singapore	Ad valorem and specific rates applied only dutiable items are petroleum products, intoxicating liquors, motor vehicles, and tobacco. Since 1994, 3 per cent of goods and services tax imposed.	Applied tariff of 0 per cent for most products	Average bound rate on industrial products is 5.1 per cent (trade weighted basis); simple average of bound rates across all sectors is 7.4 per cent.	Only 1 per cent of imports face tariffs: cigarettes, alcoholic beverages, autos, and gasoline		AFTA
Thailand	Surcharges and excise, value-added and municipal taxes; with exception of wine and spirits, specific rates apply to less than 3 per cent of tariff lines.	Maximum tariff 30 per cent in most cases	Average tariff 5.5 per cent (ratio of import duties total imports); average trade-weighted tariff on dutiable items 15.2 per cent; average applied tariff 17 per cent in 1997; 28 per cent average bound-tariff rate on industrial products.	Major exception in autos where tariffs for most vehicles are bound at 80 per cent	Export subsidies on agricultural products.	AFTA

Sources: *Adapted from United Nations (1999) and updated with information from United States Trade Representative, (2000) National Trade Estimate Report on Foreign Trade Barriers*

In terms of import licensing requirements, the WTO Agreement requires members to submit initial notification of laws and regulations relevant to import licensing as well as to respond to a questionnaire on import licensing by the 30 September of each year. As shown in Table 7, it can be seen that only Singapore has submitted the WTO notification while Indonesia, and Thailand has yet to respond to the WTO questionnaire. Thus full compliance in this area of trade restrictions has yet to be fulfilled. Furthermore, it should be noted that of the ASEAN-5, only Malaysia has a quota on CBU motor vehicles.

Table 8 shows the compliance to the WTO Anti-Dumping Agreement as well as the WTO Agreement on Subsidies and Countervailing Measures. As can be observed from this Table, all the ASEAN-5 have submitted to the WTO their respective legislation on anti-dumping measures. Similarly, all have notified the specific subsidies given in each of these economies. The main type of subsidy that has been notified is tax concession in the form of income-tax exemptions or reductions, import-duty exemptions, and other tax credits. As in the case of other developing economies, the ASEAN-5 have also increasingly participated in anti-dumping actions. For example, between 1996-mid-1997, Indonesia has conducted 10 investigations on anti-dumping (United Nations, 1999). However, the use of anti-dumping duties or countervailing duties are less frequent as shown by the same Table.

Compliance to the TBT and the SPS is shown in Table 9. As can be seen, the ASEAN-5 are members of most of the major international organizations that set international standards such as the International Organization for standardization (ISO), the FAO/WHO CODEX Alimentarious Commission for food safety, the Office International des Epizooties for animal health and the FAO International Plant Protection Convention for plants. Moreover, they are also members of the International Electrotechnical Commission (IEC) which is the world organization that prepares and publishes international standards for all electrical, electronic and related technologies. Other standards, testing, labeling and certification requirements that are required at a country level are also shown in the same Table.

Table 7: Import Licensing Requirements

Country	Submission of WTO notification	Reply to WTO questionnaire	Date invoked two-year delayed application provisions	Coverage of licensing	Sectors subject to restrictive, non-automatic licensing	QRS, quotas and bans (formal)
Indonesia	No.	No.	As of 1 January 1995	203 tariff lines subject to restrictive import licenses	Alcoholic beverages, hand tools, engines and pumps tractors, artificial sweeteners, knocked-down electronic keyboards, scrap materials, motor vehicles, rice, lube oil and explosives; restrictive licensing regulations in fertilizer and HH gas.	Total import prohibition on 9 products and import quota on a number of sensitive products
Malaysia	No.	Yes.	As of 1 January 1995	17 per cent of tariff lines subject to non automatic licensing	17 per cent of tariff line subject to non-automatic licensing, Government is sole authorized importer of rice; non-automatic licensing of coffee beans and round cabbages; fish and fish products, plant and planting materials, radioactive material and irradiating apparatus, animal and animal products, pesticides, rice/glutinous flour/ rice vermicelli/mill machinery, round cabbages and unroasted coffee, palm oil, Explosives, siren-producing equipment, dress serving, firearms and ammunitions, electrical equipment, liquor/tobacco, telecom. apparatus, sawn-logs/wood, toxic and hazardous wastes; also sugar, natural barium sulphate, clay and bleaching earth, passenger and commercial vehicles, motor cycles, steel bars/billers and wire rods/cables, CFC, batik sarong.	Quota on completely-built-up motor vehicles.
Philippines	No.	Yes			Dangerous drugs, rice, chloro-fluorocarbon and other ozone-depleting substances, penicillin and derivatives, coal and coal derivatives, color reproduction machines, certain chemicals, pesticides, motor vehicles and parts/components, truck and auto tyres and tubes, warships, radioactive materials, legal tender	Rice quota
Singapore	Yes.	Yes.		6 per cent of total imported goods subject to licensing.	Artificial sweeteners, irradiated food, plants/flowers/fruits/vegetables from selected Latin American countries, fruit/jackpot machines poisons, radioactive materials and irradiating apparatus, medicines/poisons/drugs, certain telecom equipment, full-color copying machines, rice	Only quota on rice imports.
Thailand	No.	No.	As of 1 January 1995	42 categories of items, 23 of which are agricultural	Many raw materials, petroleum, industrial, textile, and agricultural items; all food for human consumption; non-automatic licensing in fish meal, coffee beans, pepper, sugar, jute and certain gunny bags.	Only quota on garlic.

Sources: *United Nations (1999) and updated from Europa Trade (http: /europa.eu.int/)*

Table 8: Anti-Dumping, Subsidies and Countervailing Duties

Country	National legislation/regulations on anti-dumping	Receipt of new and full subsidy notifications and updates	Types and prevalence or subsidies	Sectors investigated	Use of anti-dumping or countervailing investigations/duties
Indonesia	Existing legislation in Indonesian Anti-dumping Committee and Ministerial Decree No. 172/MPP/KEP/&/1996	Yes, with update in 1996	Preferential tax treatment for autos with certain LCR content levels; import duty relief for parts and accessories of motor vehicles.	Cotton fabrics (Turkey); automobiles (Japan, EU); melamine dinnerware (USA)	
Malaysia	Existing legislation in Countervailing and Anti-dumping Duties Act.	Yes with updates in 1996 and 1997.	Preferential tax treatment to export growth for companies producing exports with certain local content rates; subsidies for export of crude and processed palm oil.	Rubber thread (USA)	
Philippines	Existing legislation in Republic Act (RA) 7843, Section 301 and Section 302, Philippine Tariff and Customs Code.	Yes, with update in 1996.	Concessional loans grants for agricultural investments, including irrigation and other farm infrastructure; tax holidays, tax and duty exemption, other tax credits for export producers and traders that register under Board of Investment program		Desiccated coconut (Brazil).
Singapore	Existing legislation in Countervailing and Anti-dumping Duties Act 1996 of Singapore	Yes, with updates in 1996 and 1997	Tax exemption on export profit for trading company with manufactured exports of S$ 10 million + or agricultural product exports of S$20 million + or that exports at least 20 per cent of production; double income–tax deduction for exporters of Singapore-made goods	Anti-friction ball bearings, color picture tubes, rectangular pipe and tube, v-belts (USA)	
Thailand	Existing legislation in Notification of the Ministry of Commerce on the Impositions of Anti-dumping and Countervailing Duties B.E. 2539.	Yes, with update in 1996	Subsidies for agricultural exports; import-duty exemption reduction on machinery and raw materials used in promoted manufactured projects; credit refinancing for priority sectors including small-scale industry and rural development; Exemption of surcharge, import duty value added and excise tax on machinery equipment, tools and supplies used in products of exports.	Pipe fittings, canned pineapple, furfural alcohol (USA)	Iron and steel products (Poland), hydrogen peroxide (India)

Source: *United Nations (1999)*

Table 10 : Intellectual Property Protection

Country	WTO TRIPs Agreement compliance	International memberships	Patent	Copyright	Trade mark	Miscellaneous
Indonesia	Not all laws consistent with TRIPs. Modifications needed for patent, copyright and trade-mark laws and laws or regulations needed relating to protection of integrated circuits, trade secrets and industrial design.	WIPO, Berne and Paris	Patent Law 1991 amended in 1997; patent protection for 20 years, with two-year extension period; concerns remain that law does not satisfy TRIPs Party to patent cooperation Treaty.	Copyrightable works protection up to 50 years, as required by TRIPs bilateral copyright agreement with the United States extending national treatment to each other's copyrighted works.	Copyrightable works protection up to 50 years, as required by TRIPs; bilateral copyright agreement with the United States extending national treatment to each other's copyrighted works.	Trade-mark law 1993; trade-mark rights by registration rather than First use , but no procedures to clear registrations that infringe on well-known marks; Member Trade-mark Law treaty. Geneva 1994; gives waivers on tariffs on auto parts and luxury taxes on finished vehicles if have 'previously unregistered domestic trade mark.
Malaysia	Malaysian Industrial Design Act 1996 complies with TRIPS; Intellectual Property Office (expected to be fully operational by end 1997).	WIPO, Berne and Paris	Patents Act 1983 amended in 1995, limitations on terms of licensing contracts or periods for which royalties can be collected (five years) and setting a ceiling on royalty rates.	Copyright act 1987 with amendments in 1996 and 1997.	Trade-marks Act 1976, but does not include protection for service marks; gives preferential tax deductions for advertising expenses of local-brand products.	
Philippines	Legislation in compliance	WIPO, Berne and Paris	First-to-file system, term is 20 years.	Although IPR laws protect computer software as literary work, establishes exclusive rental rights in works and sound recordings, and provides protection for sound recordings, and provides protection for sound recording and AV works and newspapers/ periodicals, gaps remain including fair-use provision on software decompilation , lack of clear provisions for ex-part relieve, and ambiguities on exclusive rights for owners over broadcast and retransmission.	No longer requires prior use of trade marks in the Philippines as requirement for filing of trade-mark application.	Intellectual Property Office (established in 1998).
Singapore	Legislation expected to be in compliance by January 1999	WIPO and Paris	Patent law is fully-TRIPS consistent	Copyright laws in conformity with TRIPS		Not member of Universal Copyright Convention
Thailand	Accepted TRIPs	WIPO and Berne	Patent protection for 20 years.	Copyright law exists but certain provisions vague, judicial proceedings slow, fines light.	Trade-mark Act 1991, registration effective for a period of 10 years.	Intellectual property and international trade court, a one-stop shop to enforce protection (December 1997).

Source: United Nations (1999)

Table 11. Government Procurement

Country	WTO Government Procurement Agreement	Centralized agency	Characteristics of tendering system	Examples and other requirements
Indonesia	No.	Government procurement system highly decentralized but contracts over Rp10 billion require review and approval of the Coordinating Minister of the Economy, Finance and Development Supervision	Foreign joint ventures not eligible for government pharmaceuticals procurement; presidential decree requiring infrastructure projects be publicly tendered on competitive basis; for contracts under Rp15 million, the procurement team may select bid from an economically weak group of contractors. Open tendering increased since 1995.	
Malaysia	No.	Conducted by individual ministries except goods and services over RM 7 million and works tenders over RM 15 million must be referred to Ministry of Finance for decisions	Procurements about RM50,000 must be done through tendering. Some tenders are restricted to Malaysian bidders. Malaysian bidders are extended a preference that varies with contract size, and Bumiputeras enjoy additional preference	
Philippines	No.	Procurement highly decentralized, except for common use supplies, materials and equipment which is purchased by the Procurement Service.	Competitive bidding, and in general, do not discriminate against foreign bidders; preferential treatment for locals in government purchase of medicines, rice, corn and iron/steel materials; contractors for large public utility infrastructure project require at least 60 per cent Filipino ownership.	Countertrade requirement for government agencies and government owned or controlled corporations if purchase is > US$1 million in foreign currency.
Singapore	Party	Ministry of Finance, Budget Division, Expenditure and Procurement Policies Unit for limited number of products such as paper and rice.	Competitive bidding for about 85 per cent of total number of tenders or 60 per cent of value, excluding defense contracts. All local and foreign suppliers are required to register as government contractors.	
Thailand	No.	None	Competitive bidding applies to contracts over 2 million baht; Thai products and services, except construction, receive 10 per cent price preference in procurement.	"Buy Thai" procurement campaign for government-controlled hospitals and clinics; contracts > 1 billion baht require counter purchase of Thai goods at 20 to 50 per cent of principal contract; procurement > 50 million baht by State enterprises must apply countertrade measures.

Source: *United Nations (1999*

Table 12. Trade-Related Investment Measures

Country	General Policies	Restricted Sectors	Land/employment	Export/import balancing	Local content requirements
Indonesia	Foreign parties allowed to own 100 per cent of issued capital in new company, except in some areas classified as particularly important limited to 95 per cent. Within 15 years, however, 100 per cent shareholder must sell at least nominal percentage to an Indonesian citizen or entity	Sectors absolutely closed for investment: logging, wood processing, gambling; sectors where 100 per cent ownership not allowed: port and shipping, telecommunication, shipping, electric power, airlines, railway; sectors closed for part ownership: taxi/bus, local shipping, retail trade, media, cinema domestic trade services; aircraft allowed only if cooperate with existing firm; other agriculture, food processing, textiles, tools reserved for small-scale business.	Duration of foreign expatriate to work is subject to government regulation, based on expertise and availability of Indonesians.		Local content requirement (LCRs) in automotive sector, soybean cake and fresh milk.
Malaysia	Foreign investment not allowed in excess of 30 per cent ownership in sector where Malaysian skills and capital can be used such as trading, publishing, shipping, home development, and construction. All sectors in manufacturing open though few require joint venture; 100 per cent foreign equity allowed in export-oriented projects with high-tech or value-added features	Joint venture required in industries producing supporting parts/components.	Foreign firms face restrictions on number of expatriate workers allowed; unrestricted employment and entry of foreign knowledge workers in the Multimedia Super Corridor.	Export ratios linked to allowed equity levels	45 to 60 per cent LCR for passenger and communication Vehicles: 60 per cent for motor cycles; plan to phase out by 2000 to be replaced by higher tariff; investment incentives also come with local content standards.
Philippines	1991 Foreign Investment Act allows up to100 per cent foreign equity in enterprises not seeking investment incentives; foreign ownership limited in advertising (30 per cent), employment recruitment (25 per cent), private construction 940 per cent), financing (60 per cent), public utilities (40 per cent), education (40 per cent) and exploration and development of natural resources (40 per cent)	Ban or restriction on foreign participation in licensed professions, media, retail trade, processing of corn and rice, private security agencies. Minimum paid-up capital of US$200,000 for enterprise more than 40 per cent foreign-owned.	Foreign employment allowed so long as no qualified Philippine citizens can fill the positions citizens can fill the positions, and employer must train Filipino understudies. Forty per cent foreign equity ceiling in land ownership. Maximum term land lease 0 50 to 75 years.	Foreign exchange balancing in autos.	LCRs in motor vehicles and motor cycles; coconut based chemicals.
Singapore	National treatment between domestic and foreign investment in general	Limitations in telecommunications, financial services, media, and national airline.		No LCR schemes.	
Thailand	Foreign Operation Law determines types of businesses in which foreigners may own a majority share, especially in services sectors. With certain exceptions, foreign equity participation may not exceed 49 percent of registered capital, and for many financial services, maximum foreign equity limit is 25 percent.	Restricted in rice farming, salt, land trade, accounting, law, architecture, hair dressing, and building.	Requirements to hire eight Thai for each foreigner, 39 occupations closed to aliens; land possession permitted.	Export industries allowed more equity share; required export shares to set up manufacturing projects in certain locations	LCRs in dairy products, motor vehicle engines, television tubes, aluminum sheeting. Local content must not be less than 54 per cent for passenger cars and not less than 70 per cent for motor cycles; obligation to phase out by 1 January 2000.

Source: *United Nations (1999)*

(i) China in the WTO

As China progressively opens its economy to the external world, international trade in this country has escalated. Thus by 2000, China is the 7th largest exporter and the 8th largest importer in the world in value terms, even without being a member of the WTO. In contrast, with economic recovery post-crisis, Singapore, Malaysia, Thailand and Indonesia are ranked, respectively, 15th, 18th, 23rd, and 26th in terms of world exports in 2000. Concurrently, imports from Singapore, Malaysia and Thailand are ranked, respectively as 16th, 18th and 22nd in the world for the same year. The growing importance of China in world trade, even without WTO membership, has posed severe competition to other developing economies. As liberalization of trade under WTO commitments will undoubtedly increase the trading position of China in the world economy, its accession into the WTO in 2001 will undoubtedly intensify the competitive pressures on the ASEAN economies.

Various studies have confirmed the loss in competitiveness in labor-intensive products for Singapore and Malaysia (see Tham, 2001a). In contrast, China's revealed comparative advantage (RCA) in labor-intensive products is much higher than the RCA for the same product group of each of the ASEAN-5. Hence China will undoubtedly pose severe challenges in both the internal markets of the ASEAN-5 as well as in third country markets such as the USA, EU and Japan in labor-intensive products as textiles and clothing, footwear and toys.

Further, apart from these products, China also has a revealed comparative advantage in natural resource-intensive products. More importantly China is also moving rapidly into the assembly segments of technology-intensive products that are the main exports of Malaysia, Philippines, Singapore and Thailand (Tham, 2001b). Since this group of products is highly dependent on FDI, the future ability of the ASEAN-5 to compete with China rests critically on their respective abilities to induce MNCs to upgrade the technology content in the operations of their affiliates in these countries.

The share of FDI accruing to the ASEAN-5 economies, as a percentage of the developing world was the highest between 1987-92 (23.3 per cent, Table 13). Subsequently, its share fell to 18.7 per cent in 1993 and declined again slightly to 18.2 per cent in 1996. The decline in the relative attractiveness of the ASEAN-5 as host economies can be attributed to the erosion of specific locational advantages such as low wages and deteriorating infrastructure conditions as well as increasing competition from China and other developing host economies (Tham, 1998). The financial crisis in 1997 served to exacerbate this declining share as the economic contraction reduced corporate profits and the subsequent investment decisions of MNCs that were affected by the crisis. Hence ASEAN's share fell further to 9.5 per cent in 1998. With economic recovery in 1999, ASEAN's share has continued to decline to 6.8 per cent due to sharp drop for Indonesia as well as the decline in Philippines and Thailand. Inflows of FDI have recovered for Malaysia and Singapore but stands at 48 per cent and 78 per cent, respectively, of the FDI levels in 1996.

China has been the single largest FDI host economy in the developing world in the 1990s. However, inflows of FDI have contracted for 2 consecutive years from US$44.2 billion in 1997 to US$40.4 billion in 1999 (Table 13).

Table 13 : Foreign Direct Investment Inflows in ASEAN-5 &China, 1987-99 (US$m)

	1987-92 (Ann.Av.)	1993	1994	1995	1996	1997	1998	1999
Indonesia	999	2,004	2,109	4,346	6,194	4,677	-356	-3270
Malaysia	2,387	5,006	4,581	5,816	7,296	6,513	2,700	3,532
Philippines	518	1,238	1,591	1,459	1,520	1,249	1,752	737
Singapore	3,674	4,686	8,550	7,206	8,984	8,085	5,493	6,984
Thailand	1,656	1,805	1,343	2,000	2,405	3,732	7,449	6,078
ASEAN-5 Total	8,235	14,739	18,174	20,827	26,399	24,256	17,038	14,064
China	4,652	27,515	33,787	35,849	40,180	44,236	43751	40400
Developing Countries	35,326	78,813	104,920	111,884	145,030	178,789	179,481	207,619
World	173,530	219,421	255,988	331,844	377,516	473,052	680,082	865,487
China as % of developing world	13.2	34.9	32.2	32.0	27.7	24.7	24.4	19.5
ASEAN as % of developing world	23.3	18.7	17.3	18.6	18.2	13.6	9.5	6.8
Ratio of ASEAN to China	1.8	0.5	0.5	0.6	0.7	0.5	0.4	0.3

Source: *UNCTAD, World Investment Report, 1999 and 2000*

The share of FDI in China as a percentage of the developing world, increased significantly from an average of 13.2 per cent between 1987-92 to 35 per cent in 1993, but subsequently declined progressively to 19.5 per cent in 1999 due to increasing competition from other developing economies. In particular, Latin America has re-emerged as an attractive location for FDI since the mid-1990s. Internally, the drop since 1997 can be attributed to the slow-down in economic growth and excess capacity in some of the manufacturing industries due to over-investment in the past decade (UNCTAD, 2000). Nevertheless, despite the decline in its relative attractiveness as a host economy since 1997, China's accession into the WTO will certainly stimulate greater inflows of FDI into the country, especially for the service sub-sectors that will be offered for foreign participation as part of its accession commitments.

Although currently the ASEAN-5 has greater RCA for technology-intensive products, the ability to continue to compete with China in this group of products will depend crucially on the race up the technology ladder in each of this country with the assistance of FDI. Since the ASEAN-5 economies, with the exception of Singapore, have yet to shift out of labor-intensive assembly operations, the main threat of China in the WTO lies not just in the loss of world exports and domestic markets to clothing, footwear and toys that are made in China. Rather the main threat lies in the potential hollowing out of the manufacturing base of these countries should they fail to move up the technology ladder before China succeeds in re-structuring its manufacturing sector.

At the same time, WTO accession will also increase income and demand in China, thereby generating an increase in its demand for imports as well. Therefore there will also be increased opportunities to export to China although the ASEAN-5 will have to face stiff competition from within or among themselves as well as with other competitive producers in the world. In terms of product groups, ASEAN as a group, will have increased opportunities to continue to export oil and natural gas to China, which is a net importer. Other products that will have the potential to be exported to China include food, natural resource-based products and agricultural commodities such as rice, seafood, food preparations, tropical fruits, vegetable fats and oils, wood and wood products, and natural rubber and tin. However, given that electrical and electronic equipment currently constitute nearly half of the exports of ASEAN economies like Philippines, Malaysia, and Singapore, these are also likely to expand into China with its accession into the WTO.

(ii) Future of Industrial Policy

Industrial policy as defined by Lall (1994) essentially comprises all actions taken to promote industrial development beyond that permitted by free market forces. Developing countries in their attempt to industrialize and catch-up with the developed world have used various measures to support the development of selected industries.

While theoretical discourse and empirical evidence continue to debate on the effectiveness of state intervention, this has not curtailed its continued usage in developing and developed countries. However, WTO disciplines on subsidies, local content protection, export restrictions and TRIPs reduce the flexibility of governments to pursue policies in these areas (Bora, et al; 2000). The dynamic nature of WTO also implies that it is possible that any instruments that support the development of domestic industries or domestic firms that can affect trade may also be included in the WTO disciplines at some point in the future.

Thus the immediate challenge to industrialization is to use WTO-consistent policies to industrialize. The future of industrial policy however will require effective participation in rules-making in the WTO. This is particularly more important post-Doha as the consensus-principle that is required before negotiations provides room for ASEAN to effectively reject any decision that goes against its national interest. The need for the country to effectively participate in any new negotiations and new issues will be discussed further in the sub-section below.

(iii) New Negotiations and New Issues

At Doha, four old issues were raised for negotiations (Khor, 2001). These are non-agriculture market access, trade and environment, clarification of rules on anti-dumping, subsidies, countervailing measures, fisheries subsidies, regional trade arrangements and clarification of dispute settlement. In addition, 4 new issues (or the Singapore issues) have also been raised pertaining to trade and investment, trade and competition policy, transparency in government procurement and trade facilitation. Trade related measures to counter the problems between trade, debt and finance are also currently being debated in the new Working Group for these issues. For each of these issues, whether new or old, ASEAN will have to deepen her understanding of these issues and to decide whether it will be in her interest to have these issues included in the WTO (Khor, 2002). Thus the challenge for ASEAN in the next and future rounds of new negotiations and new issues in the WTO is to establish the **national priorities** for each of these issues. This is not an easy task since it will have to balance between the need to advance the trade interests of the nation while protecting the independent ability of the country to pursue its developmental goals (Sidek, 2002).

The call to further cut industrial tariff is perceived to be in the interest of the developed countries as the Post UR weighted average bound industrial tariffs for these countries is 3.5 per cent when the UR tariff cuts are fully implemented. However, developing countries, on average, will have a bound MFN trade weighted industrial tariff of 20 per cent. Moreover there is substantial difference between the bound and applied rates, which is on average 13.3 per cent, for the developing countries. Nevertheless, both the averages of developed and developing countries understate protection as there are high tariff peaks and escalation with stages of processing. Hence there is still definitely room for further reduction.

V POLICY OPTIONS

In this section, I will discuss the policy options for each of the challenges and opportunities raised in Section 4.

(i) Policy Implications for China in the WTO

Given that China is expected to grow even more rapidly with the accession, short and medium-term policies for ASEAN should focus on improving the market access for ASEAN products in China. In this regard, ***trade facilitation measures*** will enhance Malaysia's opportunities to exploit the growing Chinese market. Thus inter-governmental exchange of information on legal enactments, regulations, product standards and customs procedures via regular trade policy dialogues will increase the transparency and understanding of China's market and assist Malaysian exporters to China. Improving visa arrangements to promote the flow of business personnel will also contribute to easing the procedures for conducting business in China. More importantly, co-operation in terms of aligning domestic standards with international standards and the mutual acceptance of the each country's conformity assessment will help to reduce hidden trade barriers. In the medium to long-term, however, ASEAN will have to accelerate its output of skilled labour, diversify exports and export markets, and develop indigenous R&D capabilities in order to counter the challenges posed by China's accession into the WTO.

At the same time, ASEAN should accelerate the establishment of the ASEAN-China Free Trade Area as the proposed "early harvest" program will enable the ASEAN-economies to have a first cut into the Chinese market. It will revitalize the interest of FDI in ASEAN as investors seek to hedge their investment in China by adopting the China-Plus-One strategy. In other words, apart from their investment in China, investors will also invest in ASEAN to reduce the risks and to complement their investment in China.

In this regard, ASEAN will have to improve their abilities to ***manage FDI***, whereby the focus of FDI policies has to go beyond mere incentives alone. Instead FDI policies have to provide an enabling environment for attracting the appropriate investments that will facilitate the shift toward higher value-added products and also enhance the transfer of technology by improving the domestic capacity to absorb.

(ii) Industrial Policy

Current WTO-consistent rules still allow for the promotion of the manufacturing sector by advancing science and technology (S & T) and as this concur with the development goal of the country, ASEAN should hasten industrial development by encouraging research and development, including the use of subsidies. Amsden (1999), however, cautions the indiscriminate use of subsidies and instead advocates a disciplined use by establishing "reciprocal control mechanism". This mechanism is essentially a set of institutions that disciplines economic behavior based on feedback information that has been assessed. In other words, recipients of subsidies are tied to obligations and subjected to monitorable performance standards that are re-distributive in nature and result-oriented.

But in the long-term, Laird (1997), a WTO Counselor, has suggested that a 'good' export policy should focus on reducing fiscal and procedural constraints to exports, trade facilitation, and the use generic policies such as infrastructure development, an appropriate exchange rate policy, human capital formation, innovation policies and joint venture agreements. Therefore, ultimately, the effect of WTO disciplines shifts the role of state intervention from targeting specific sectors for development to the use of policies that addresses the basic supply issue of an economy such as infrastructure development, human capital formation, and capacity building.

(iii) New Negotiations and New Issues

Effective negotiations require developing countries to do their homework before they come to the negotiating table. Therefore it is vital that ASEAN conduct extensive research on the impact of the new issues and to have specific offers to make in each of the issues that is tabled in the agenda. In this regard, research should be based on consultations and interactions with the private sector, non-governmental organizations (NGOs) as well as the local research communities. It is therefore important to nurture local research capabilities as well as mechanisms for feeding the outcome to the negotiators.

In assessing the implications of the proposed agreements, it is equally crucial that a proper cost-benefit analysis of the alternative rules (agreements) and the resource implications associated with adopting a particular set of disciplines be conducted. This is in view of the fact that the cost of implementing WTO agreements can easily exceed the entire development budget of a least developed country while imposing little or no cost for the high-income countries that may already have established mechanisms for implementing these agreements (Chadha, et al., 1999).

ASEAN should also seek useful coalitions of like-minded member countries to prevent the large players from over-riding the interest of smaller developing countries. In this regard, the coalitions can be subject-specific as the interests of the developing countries can differ greatly since they are more heterogeneous than homogeneous these days. To illustrate, the successful conclusion of the agreement on agriculture can be attributed to the formation of the Cairns Group.

Since tariffs are declining, the scope for import protection is clearly limited regardless as to whether industrial tariffs will be further restricted in the New Round. Accordingly, it will be increasingly difficult to utilize tariff protection at the scale that was used to protect infant industries as in the case of the ASEAN-5 (excluding Singapore) for the automobile sector.

VI CONCLUSION

As global trade increases, there will, inevitably, be more calls to establish increasing international rules to govern both the conduct as well as the governance of trade between nations. Consequently, WTO as the only international institution that establishes the rules for international trade will become increasingly important. Hence membership in the WTO brings forth both new challenges and opportunities.

In this regard, China's accession into the WTO will definitely increase the competitive pressures that each of the ASEAN-5 faces to new heights as they are not only edged out of the labor-intensive export goods. Rather their current relative comparative advantage in the technology-intensive segments is also under threat of being usurped by exports from China. At the same time, liberalization will also offer greater opportunities for ASEAN exports to China. Hence in the short and medium-term, it is imperative that the ASEAN-5 work together to increase trade facilitation with China. Accelerating the formation of the ASEAN-China Free Trade Area will also enable the ASEAN-economies to move into the Chinese market. It will also revitalize investor's interest in the ASEAN region as investors who wish to hedge the risks of their investment in China will be inclined to adopt the China-Plus-One strategy. In the longer-term, the ability to compete with China will depend on the individual economy's ability to restructure their respective economies before China.

Since WTO is dynamic and as the share of developing countries in global trade increases, developed countries will definitely aspire to bring more and more new issues into the WTO disciplines. Thus ASEAN will have to improve its ability to negotiate at the global level by participating actively in the negotiating process. More importantly, effective negotiations require ASEAN to improve its research capacity in assessing the impact of each of these new issues on the trade of their respective economies. Moreover, it is also equally important that

ASEAN establish coalitions among like-minded countries in order to enhance their negotiating power.

Current WTO disciplines already curtail the use of some of the favored industrial policy instruments of the developing countries such as local content requirements. While some have resorted to extending the transition period that is permitted under the current disciplines, it is exceeding unlikely that pressures to liberalize can be stalled for an indefinite period of time. To quote Held, et al; (1999), " As formal barriers to trade have been eliminated, interest has shifted toward differences in domestic regulations and laws governing competition in different countries. Since domestic regulations can be seen to give competitive advantage to firms from one country over another, they can be construed as potential barriers to trade. Whereas earlier phases of trade liberalization merely created moves to eliminate external trade barriers, the intensification of trade combined with the internationalization of production have led to pressures for a much deeper harmonization of domestic laws and regulatory structures governing business. Evolving global markets imply pressure for common rules to govern them." Consequently WTO disciplines be it now or in the future, will not favor the use of specific polices that target the development of selected sectors. Rather the use of sector-neutral policies are encouraged, especially those that address the supply of basic issues such as infrastructure, human capital development and capacity building.

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