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# PHILIPPINE FOREIGN POLICY: NEW POLICY IN A CHANGING WORLD ENVIRONMENT

— ROBERTO R. ROMULO —

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Not long ago, the Philippine world-view was dominated by the confrontation between the United States and the Soviet Union, by the perceived threat from Moscow and its various surrogates, and the support that they apparently extended to the domestic communist movement.

Perceiving its security and economic destiny to be tied to its American ally, the Philippines was dominated for a long period by the American military and economic presence, and its foreign policy heavily influenced by Washington. Today, with the termination of the Military Bases Agreement (MBA) and the withdrawal of U.S. military forces from the country, the United States has become, almost overnight, only one of the Philippines' trading partners and sources of investment and assistance, albeit a major one strategically dominant in the world.

The world in which the Philippines finds itself and in which Philippine foreign policy operates has radically changed. The dismantling of the Soviet empire and the end of the Cold War and of global ideological and military confrontation, the rapid advance of the capitalist system throughout the world and the growing primacy of international economic issues in world affairs reflect the most radical form of global change in the last half century. The Philippines now finds its economy to be the most influential factor on its foreign policy.

With this changed environment, the country's foreign policy has to be a balancing act between global pressures and domestic demands and interests. Six strategic concerns dominate the foreign policy agenda of President Fidel V. Ramos' Administration.

- First, the formulation of a new framework for regional security and regional cooperation to govern inter-state relations in the Southeast Asian region.
- Second, expansion of the country's relations with the East Asian tigers and Japan in terms of trade, investment and other financial flows.
- Third, a redefinition of our relationship with the United States.

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*Roberto R. Romulo is the Secretary of Foreign Affairs, Republic of the Philippines.*

- Fourth, expansion of multilateral and bilateral ties with the European Community and other European nations in a wide range of areas, including trade, environmental concerns, human rights and labor.
- Fifth, concern over the hundreds of thousands of Filipino workers currently employed in the Middle East in view of the security and economic situation in that region.
- Sixth, the global economic pressures imposed by regionalism and regional trade blocs and the ASEAN response, mainly the formation of the ASEAN Free Trade Area (AFTA).

### **The Region: Southeast Asia**

Within the Asian-Pacific region, Southeast Asia has become an area of economic importance and rapid growth. The rise of ASEAN, the incorporation of the Indochinese states in the regional order, and the re-emergence of a market economy in Vietnam and Laos reflect the wide range of political and economic activity in the area. These changes have not however eliminated the potential for regional instability. The sub-region is marked by great diversity in both historical and cultural terms.

In recent years, the region has seen an arms build-up as nations respond to the shifting regional security situation. While ASEAN has been quite successful in managing intra-ASEAN conflicts, the sources of these conflicts have not been eliminated and include unresolved and unsettled territorial claims and border issues.

#### *Regional Security*

ASEAN has undertaken a series of dialogues in an attempt to hammer out a concept of a new regional order in light of the reduced American military presence and other changes in the global and regional political and security situation. No formal security arrangement is envisioned. Rather, regional security is to be pursued through dialogue, networks of political and economic relationships, and a variety of confidence-building measures. Most countries, including the Philippines, favor a tacit or explicit U.S. presence in the region as a factor to enhance political stability and regional security. Singapore has been the most outspoken advocate of continued U.S. presence in the region having signed a memorandum of understanding authorizing expanded use of its naval and air facilities to the U.S. military.

His Excellency Minister Soonsiri of Thailand, a colleague in ASEAN, has warned that too rapid a change in the existing security arrangements could upset the regional balance of power and lead to an escalation in regional conflict. Under the current circumstances, he suggests that the U.S. military presence is vital to maintain equilibrium in the balance of power in the region. Eventual U.S. troop withdrawal should be a step-by-step process.<sup>1</sup>

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1. H.E. Prasong Soonsiri, Minister of Foreign Affairs of Thailand. "Prospects for Defense and

During the Singapore Summit in February 1992, ASEAN leaders declared to “use established fora to promote external dialogues on enhancing security cooperation,” in lieu of a new security arrangement. Since then, ASEAN has held a series of informal discussions in order to generate regional confidence and resilience.

### *South China Sea Dispute*

The strategic location of ASEAN has been a paramount focus of rival powers for security operations and tactical mobility. New regional initiatives have been the focus of discussion among ASEAN member-states to solve maritime conflicts, notably in the South China Sea. Six littoral states (China, Vietnam, Taiwan, Malaysia, the Philippines and Brunei) have claims of jurisdiction over all or part of the South China Sea. Historical and legal arguments are invoked, but the potential off-shore oil resources and abundant marine life and the area’s importance for sea lane defense, interdiction and surveillance are major factors which influence the various claims.

The Philippines claims jurisdiction over certain islands and their surrounding waters in the area called the Spratlys chain. Renamed the Kalayaan (Freedom) Islands, these islands constitute a municipality of the province of Palawan.<sup>2</sup> In recent years, the country and other claimant states have acted to prevent the outbreak of armed confrontation and have considered proposals for cooperative activities in the area. In 1990, 1991 and 1992, Indonesia, not a party to the dispute, hosted three workshops entitled, “Managing Potential Conflicts in the South China Sea.” There, the Philippines proposed measures to develop cooperative arrangements through navigational safety and communications, maritime research, meteorology, and a joint evaluation of oil resources in the region. The Philippine position is one of co-existence and cooperation rather than confrontation in what should be a beneficial situation for all parties concerned if mutually acceptable sharing arrangements can be defined.

On July 22, 1992, the six-members of ASEAN signed a declaration in Manila requesting that claimant nations set aside the issue of sovereignty and “explore the possibility of cooperation” in the area. The ASEAN Declaration on the South China Sea provides a consensus framework for the avoidance of conflict and the pursuit of peaceful cooperation by the various claimants. The Declaration thus sets the tone for a *modus vivendi* that is intended to ensure the maintenance of peace in the area for an indefinite period of time.

ASEAN member countries stressed the importance of resolving all sovereignty and jurisdictional issues without resort to force, and urged all parties to exercise restraint with the intention of creating a positive climate for the even-

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Security Cooperation in ASEAN.” *Prospects for Security Cooperation in the 1990s*, 5-7 June 1991, Manila, Philippines.

2. Contrary to the position of China, Taiwan and Vietnam, the Philippines maintains that the Kalayaan Island Group is distinct from, and not part of, the Spratlys chain. “Pag-Asa”, the main island of the Kalayaan Group covers an area almost twice the size of Spratly Island. Moreover, Pag-Asa lies some 210 nautical miles distant from the Spratlys. The Philippines maintains no claim over the Spratly or Paracel Islands.

tual resolution of all disputes. Vietnam, admitted as an ASEAN observer at the foreign ministers' meeting, immediately expressed its full support for the declaration. China expressed appreciation of some of the basic principles and added that it was ready to enter into negotiations with the countries concerned when the conditions became ripe. Additionally, China proposed joint exploration and development of resources in the Spratlys zone pending a settlement of the sovereignty dispute. Such an arrangement was perceived to be only a temporary solution. Moreover, despite its preoccupation with internal reforms, China has made its policies in the South China Sea clear. One month prior to submission of this proposal to ASEAN, Beijing announced a contract allowing a U.S. firm to explore a 25,000 square kilometer area for oil and gas. The territory is however, also a part of the Vietnamese claim. A formal protest by Hanoi resulted in Beijing planting another territorial marker on the reef.

#### *Cambodia Dispute*

The Paris agreement on Cambodia, signed in October of 1991, has ushered in new hopes for both the Cambodian people and for lasting peace in the region, a major political objective of ASEAN since its establishment. Pursuant to the agreement, the United Nations has launched a massive peacekeeping operation and taken on an unprecedented political role in Cambodia. The coalition, cobbled together among the four contending Khmer factions remains shaky however, and the threat of armed confrontation remains a fact of life in Cambodia. The tremendous task of rehabilitation and reconstruction still must be undertaken, although the repatriation of refugees has been more successful than was initially expected. The intransigence of the Khmer Rouge, which refuses to surrender its weapons and has placed impediments on the access of UN forces to its territory, causes continuing international concern. The important fact, however, is that Cambodia is no longer an arena for contention among the major powers.

Philippine policy, consistent with the ASEAN position, is a commitment to the peace process with the conviction that the normalization of that country's situation is central to the overall stability of the region. The UN Transitional Authority has drawn the support of all ASEAN nations and the Philippines has contributed both police and naval contingents to the UN peace-keeping forces.

#### *Malaysia Relations and the Sabah Issue*

Malaysia remains the Philippines nearest neighbor and one with closest racial and blood ties. Until recently, however, our bilateral relations with Malaysia have been lukewarm at best. At the center of this has been the Sabah issue, a long-standing dispute involving claims on that Malaysian state by the Philippine government and the heirs of the Sultanate of Sulu.

The state visit by President Ramos in February 1993, the first such visit by a Philippine leader to Malaysia in twenty-five years, marked a breakthrough in relations. The Sabah issue has been an impediment to resolving other long-standing issues between the two countries including a border-crossing and joint-patrol agreement, the status of Filipino migrants in East and West Malay-

sia, and trade and investment concerns, particularly in the growth triangle involving the Southern Philippines and Malaysia. During President Ramos' visit, the two governments agreed to move ahead and address these issues. A new Joint Commission was established and "new approaches" to the Sabah question are being explored.

Historically, traditional forms of trade and barter have been carried out between the Muslim peoples of what is now the Autonomous Region in Muslim Mindanao and East Malaysia. Similarities between the culture and religion of the two areas has, over the years, led nearly 400,000 predominantly Muslim Filipinos to reside or work in Sabah.

### *Myanmar*

Within the Indochina mainland, Myanmar (formerly Burma) remains a major impediment to the full realization of peace and stability in the region. The ruling military junta in Myanmar, the State Law and Order Restoration Committee (SLORC), has drawn international criticism for its refusal to transfer political power to the opposition candidates who won a large majority in the May 1990 elections and for reported human rights violations. The most widely reported case is the house arrest of Aung San Suu Kyi, the charismatic leader of the victorious opposition party, National League for Democracy (NLD).

Liberal policies have been adopted by the SLORC over the past year in reaction to worldwide criticism. Despite the softened stance towards the opposition and the adoption of certain pro-democracy measures, the SLORC remains in full control and is likely to dictate the principles of government to the forthcoming national constitutional convention. The SLORC has also been quick to assert that it will not succumb to international pressure and that all democratic initiatives have been conceived and formulated by the government.

The Philippine policy draws from the ASEAN position of "constructive engagement" with Myanmar, using methods of quiet diplomacy in consonance with the manner in which Southeast Asians have traditionally dealt with one another. It is our view that the more liberal trends shown by Myanmar should be encouraged, and that this cannot be done if an impatient, confrontational approach is adopted.

## East Asia

### *Japan*

Japan has assumed a greater political role in the region to complement its economic status as a dominant financial power, leading investor and major trading partner in Asia. As the economically-dominant power in the region, Japan has been the single largest investor in ASEAN countries over the past five years. Direct foreign investment in ASEAN by Japan has grown from US \$734 million in 1986 to US \$5.83 billion in 1989, an eight-fold increase; with an average annual growth of 116.3 per cent, Japanese investment has far outdistanced the

average annual rates of growth for EC and U.S. investments over the same period.

Direct foreign investment has been largely responsible for the phenomenal economic growth of Thailand, Malaysia and Indonesia. The Philippines is yet to be a major host to this investment. Nevertheless, Japan has become a major investor and financier of the country's energy program. Financing for as many as five critical power projects is to be provided by the yen loan facility of the Japanese government. Rural electrification extension, additional financing for the expansion or rehabilitation of existing geo-thermal power facilities in the country, and the environmental improvement sub-project component of a coal-powered plant are among the projects financed under this facility.

It is in the area of regional security, however, that Japan's behavior raises the most concern in the region. In 1992, the Japanese Diet enacted the International Peace Cooperation Law to enable Japan to contribute Self-Defense Forces personnel to the United Nations peace-keeping operations in Cambodia. At the November 1992 Post Ministerial Conferences in Manila, Japan's Parliamentary Vice Minister for Foreign Affairs, Koji Kakizawa, laid out the terms of a controversial new law which allows Japan to contribute personnel to international peace-keeping operations. Such assistance is to be made only in response to specific UN resolutions or requests from international organizations, and only to cooperate on efforts for international peace which center on the United Nations. Japan gave firm assurances to ASEAN that it neither could nor would undertake such action of its own accord. The Philippines is satisfied with this explanation from Tokyo and has no reason to doubt the country's resolve to remain a peaceful, non-military power in accordance with its Peace Constitution.

### *China*

China's "Gold Coast," proximate to the dynamic city-state of Hong Kong, will be the world's fastest growing sub-region in the next half decade. China's economic success can be gauged by the 12 per cent growth in real gross national product. In the first half of 1992 alone, industrial output increased by 19 per cent. Economic interaction with China offers tremendous opportunities for the Philippines, even as China strengthens its armed forces and Manila calculates the implications such action may have for regional security.

The Philippines adheres to the One-China policy as stipulated in the Joint Communiqué of 1975. At the same time, economic and socio-cultural exchanges with Taiwan have grown largely through private initiatives. With its huge financial surplus (US\$80 billion foreign exchange reserves), Taiwan has been using its financial resources to reach out to third countries. The Philippines has been one of the targets of Taiwan's diplomatic offensive. Taking advantage of both its proximity and opportunities in the Philippine economy, Taiwan has had increasing economic exchanges with the Philippines.

Growing investment, commercial relations and personal ties between the two Chinas may appear to be eroding the political barriers. China's forward policy in the South China Sea and Taiwan's massive arms procurement program could

reverse these improvements, depending on a combination of factors affecting their relationship. The Philippines sees the potential for the expansion of trade with China while looking towards Taiwan as a major investor nation especially in the newly-established Subic Bay Development Area.

Taiwan has moved aggressively to take advantage of the Subic Bay facilities following the withdrawal of the U.S. military contingent. A Taiwanese consortium, supported by the Taiwanese government, has made a bid to develop a 300 hectare industrial estate within the zone. A long-term lease, currently being negotiated, along with development financing through concessional loans arranged by the consortium and by Taipei's International Economic Cooperation Development Fund has given them an advantage over other investors evaluating the facility.

### **New Relationship with the United States**

The rejection of the renegotiated Military Bases Agreement (MBA) by the Philippine Senate in September 1991 which denied U.S. military forces continued access by U.S. military forces to Philippine military bases was a result of intense debate in accordance with the process of ratification embodied in the new Constitution. This in turn reflected the debates among the various sectors of Philippine society as to the value of the continued U.S. military presence in the country.

The termination of the MBA and the American withdrawal from the Subic Naval Base, completed in November 1992, marked both an end to the chapter of "special relations" with the U.S. and the beginning of a new chapter in the bilateral relationship. As the level of military and security collaboration diminishes, other elements in the relationship, largely trade and investment, will have to be strengthened as the foundation for increased bilateral cooperation.

The immediate effect of the base closures has been the loss of revenues which resulted from the withdrawal of American forces and the cutback in aid levels from a peak of U.S. \$522.6 million in 1991 to the proposed level of US \$144 million in 1993. Nevertheless, some aspects of the security relationship remain. The incontrovertible fact that the United States is now the only superpower in the region continues to shape the relationship.

The Mutual Defense Treaty (MDT) ratified in 1951 remains in force. In November 1992, the Mutual Defense Board (MDB), a creation of the treaty, met in Manila to review regional geo-political and security issues as well as the final arrangements for the withdrawal of U.S. forces from the last military facility in Subic Bay. The MDB has served as an effective mechanism for direct liaison and consultation on military matters of mutual concern.

While the threat of great power conflict has receded, the continuing crisis in the Gulf, the search for peace in Cambodia, and other grave threats such as international drug trafficking amply demonstrate that diverse challenges to our common security remain. With the closure of the last U.S. military facility in the Philippines, U.S. forces will no longer rely on fixed permanent bases in South-

east Asia but on a variety of cooperation arrangements with virtually all countries in the region. In the case of the Philippines, the MDT and MDB are expected to continue to provide a framework and forum for coordinating military-to-military activities between the two countries.

Crucial to the new relationship is the need for a mechanism for the conduct of joint/combined training activities such as the annual "Balikatan Exercise" which enhances the inter-operability between U.S. and Philippine armed forces. The MDB included this in its recent review of the MDT. The MDT, moreover, provides the framework for the exchange of information on defense and security interests of the two allies. It is anticipated that, in the spirit of mutual cooperation, various programs and projects including customary ship visits, aircraft transits, and the rendering of assistance by U.S. forces during natural disasters and calamities would be established.

Parenthetically, following the withdrawal of U.S. military presence, the Philippines has applied for and been granted full membership in the Non-Aligned Movement (NAM). The Movement, no longer preoccupied by the Cold War ideological confrontations of the past, is now becoming more focused on issues of South-South cooperation in trade, investments, transfer of technology, environmental protection, and the fight against diseases and illicit drugs.

In the economic sphere, the U.S. continues to be a major driving force in the Pacific. For the Philippines, it has been the single largest investor and principal trading and economic power over the years, although in the recent past the level of Japanese official development assistance and investments has surpassed the United States. Nevertheless, much of the country's two-way trade is with the U.S. although the current favorable trade surplus is likely to be eroded as the North American Free Trade Agreement (NAFTA) enters into force in 1994.

Also important is the leading role that the U.S. plays in the Asia-Pacific Economic Cooperation (APEC), of which the Philippines is a member. While still a loose association of thirteen Pacific nations, APEC has established a small secretariat in Singapore to coordinate cooperative activities in a variety of practical areas. The association may become an important intermediate forum for resolving trade and economic disputes that may arise between regional blocs such as the ASEAN Free Trade Area (AFTA) and NAFTA, and between regional blocs and the global system established by the General Agreement on Tariffs and Trade (GATT).

In reformulating our relationship with the United States, the Philippines needs to conclude a new agreement or treaty of friendship, cooperation and security. Additionally, an extradition treaty would be useful for bilateral cooperation in curbing criminality, drug trafficking and other major offenses.

Gone however, are the days of the "special relationship" between the two countries. A pragmatic approach to economic diplomacy with the U.S. will now have to be pursued. In this respect, a new element in the country's policy towards the U.S. will include reaching out to the nearly two million Filipinos now residing as permanent residents in the United States. The potential for increased remittances and investment from this expatriate sector would contribute to the country's economic recovery.



The need to redefine the relationship on the basis of pragmatic economic initiatives will be the cornerstone of the new bilateral relationship with the U.S. This initiative, reflective of the demands of the domestic economy, will be the primary factor in the foreign policy of the Philippines.

### Europe

The opportunities and prospects for trade, investment and tourism from the Single European Market are also among the priorities of Philippine foreign policy. In the past decade, the EC has emerged as the third-largest investor group in ASEAN with the potential to substantially expand its presence. Not only did EC investments during the period from 1986 through 1990 grow at a faster rate than U.S. investments, but also at the end of that period, the absolute value of EC investments were twice the value of American investments in the region.

ASEAN and the EC have become substantive and significant dialogue partners over the past ten years. The annual meeting of economic ministers has witnessed an increase in the scope and quality of relations between the two communities. Human rights and insurgency movements, the environment, market access, technology transfer, and labor accords have been among the substantive topics considered and the annual meetings have been essential in strengthening inter-regional cooperation and resolving many of the issues and problem areas.

Support for the Philippines in the form of acceptance of initiatives to resolve the insurgency problem and human rights violations has been forthcoming at the EC ministerial level. The Philippines' human rights record has been put to the test and has passed scrutiny. The negative image projected by a faction of the insurgent Communist Party of the Philippines/National Democratic Front (CPP/NDF) based in Utrecht has been challenged by the local Communist leadership and by the rejection of its theoretical foundations following the collapse of Communism as a dominant world system in Eastern Europe.

In mid-1992, the European Parliament noted the report of M.E.P. Ben Visser which cited the improved human rights record in the Philippines. In January 1993, members of the European Parliament with close ties to the NDF prepared a resolution citing the alleged poor human rights record of the Philippines. The government of the Philippines responded by highlighting the National Unification Council and its program of negotiating with three insurgent groups: the Communist fronts, the Moro National Liberation Front, and the rebel soldiers responsible for the coup attempts during the previous Administration. In response, the proposed resolution was withdrawn.

The inability of the parties to reach agreement over the terms of the peace talks has not prevented the Ramos Administration from discussing a peaceful resolution to the conflict with local leaders. The government's demand that all negotiations be held within the country is a firm one. This position is intended to ensure that all peace talks are transparent, and that the Philippine population

has access to complete information to facilitate full understanding of the process and of the desired goals of the Administration.

In addition to concern over human rights, environmental concerns have likewise been high on the agenda of the EC. The Philippines, in consonance with the ASEAN position, has challenged specific European positions such as eco-labelling, the ban on rain forest products and other well-intentioned programs which are in fact inimical to the growth of developing countries.

As a new social order is developing in Eastern Europe, the Administration has begun to explore expanded relations with the Commonwealth of Independent States, Poland, Hungary, the Czech and Slovak Republics, and the Central Asian Republics of the former Soviet Union. Expanded relations with Turkey, with which the Central Asian Republics share a common cultural heritage, are also being pursued.

Clearly, the Philippine's foreign policy overtures toward Europe will be primarily economic. Philippine economic relations with Europe are not as well developed as the relations between the Philippines and Japan or the United States. Thus, there is tremendous room for expansion in trade, investment, tourism, and official development assistance. The European continent is host to over 290,000 Filipino migrant workers, both land and sea based. The protection of their rights as overseas workers is a major priority of the Ramos Administration.

The last round of talks between ASEAN and the EC were held in November 1992 in Manila. Four points for enhanced ASEAN-EC cooperation which reflect Philippine foreign policy towards EC were agreed upon: (1) better use of the Trade Experts Meeting to identify market and product opportunities; (2) improved ASEAN-EC industrial cooperation; (3) access for ASEAN countries to the European Investment Bank; and (4) Philippine participation in specific EC programs.

### Middle East

No region in the world has grown in importance for the Philippines as the Middle East has over the past decade. High oil dependency in the early 1980s up through the present has spawned a large trade deficit. Petroleum imports of 120 million barrels in support of the country's energy infrastructure program will cause the deficit to swell further.

Additionally, nearly one million Filipino overseas contract workers (OCWs) remitted close to \$ 2.0 billion in foreign exchange earnings which were critical to the Philippines in this period of low growth. The Gulf War of 1991 was especially critical for countries which export labor to the Middle East as the threat and then actuality of war forced the evacuation of thousands of workers from the areas of battle. For the Philippines, over 30,000 OCWs were evacuated from the danger zones of Kuwait, Iraq, and northern portions of the Kingdom of Saudi Arabia. While the prospect for a full-scale war in the Middle East is

remote, ensuring the protection of overseas workers in the area is a paramount foreign policy concern.

Politically, since 1973, the leadership of the Moro National Liberation Front (MNLF) has sought the support of the Organization of Islamic Conference and, for nearly a decade, maintained its headquarters in the Kingdom of Saudi Arabia. These appeals for support, have generally been met with indifference and even those countries that did extend such support seem to have lost interest in the insurgency. More importantly, since 1986, a policy which combines political autonomy, economic attention, and reconciliation towards the Muslim minority has been pursued. This led to the establishment in 1990 of the Autonomous Region in Muslim Mindanao (ARMM), the only such political region in the country. The ARMM has become an area where the Muslim majority can formulate policies and initiate programs which serve their collective interests. Constitutional recognition of the cultural and religious differences between the Muslim minority and the Christian majority is expected to usher in a new era of peace and prosperity to Southwestern Mindanao.

### **Impact of Multilateral Economic Developments**

One of the most significant developments in the international economy has been the emergence of regional blocs. Major developed countries have reduced their commitment to the multilateral system and have focused their interests closer to their domestic economies. Partly as a result of these developments, regionalism has arisen from a growing consciousness of similarities between neighbors and the need for regional cooperation. Some of these blocs concentrate solely on trade, others on economic consultation.

The movement towards regional blocs can be seen as an attempt to recreate the multilateral trading system while restricting its application to member states. The real danger in such regionalism, however, is its tendency toward exclusiveness or protectionism towards non-member states. Will trading blocs, as they emerge, become protectionist ramparts, or will they serve the purpose of free and globalized trade? The precarious future of the Uruguay Round highlights the need for stronger efforts to succeed in the future where the Uruguay Round failed. The formation of regional blocs forces other countries to look to regional arrangements of their own to protect their own trade and economic interests.

The European Community and the larger European Economic Area (EEA) has gone beyond the Common Market towards deep integration of both market and non-market systems. The Single Market is intended to bring about the free movement of capital, goods and people through the removal of physical, technical and fiscal barriers. With additional association agreements with Central and Eastern European nations formerly part of the Soviet bloc, the expanded European market, the integration of Western Europe through the EEA, and with preferential trading agreements with the former East Bloc countries, the mem-

bers of this European market trading amongst themselves could easily constitute 60 per cent of total world trade.

Across the Atlantic, the North American Free Trade Agreement (NAFTA) to be ratified in 1993 and in place by 1 January 1994 will create a free trade regime among the U.S., Canada and Mexico that will reduce barriers to investment and improve rules of trade among its members. Some studies show trade and investment diversion possibilities on the horizon against which other developing countries, including the Philippines, must prepare.

#### *ASEAN Free-Trade Agreement*

In response to such agreements, the six ASEAN leaders created the ASEAN Free Trade Area (AFTA) at the Singapore Summit in February 1992. The "Framework on Enhancing ASEAN Economic Cooperation" to commence 1 January 1993 establishes AFTA within a 15 year period as the way to enhance economic cooperation and increase trade among member countries. The Common Effective Preferential Tariff (CEPT) scheme is to be the main mechanism for achieving increased trade within AFTA.

Tariffs on goods originating in ASEAN are to be reduced initially to 20% within 5 years, and to 0-5% by the 15th year. In addition, the framework agreement seeks to remove non-tariff barriers (NTBs), harmonize standards, accept reciprocal recognition of tests and certification of products, remove barriers to foreign investments, undertake macroeconomic consultations, establish regional rules for fair competition, and promote venture capital for the region.

AFTA marks a radical shift in ASEAN programming. The end of the ideological conflict of the Cold War has reinforced the necessity of a strong economy to ensure stability. Although it was originally established to achieve economic objectives, ASEAN initiatives until now have been primarily political. In economic matters, the differences in economic levels and the differing national interests of ASEAN member-countries had made it easier for them to focus on external economic relations. This led to greater economic interaction with the developed countries than with one another. ASEAN was most useful as a venue for resolving bilateral disagreements between member-states and other countries even when all ASEAN countries were not directly concerned.

The pressures on individual economies as a result of expanded trade and competition, and the real threat of trade and investment diversion, will be immense. In the case of Europe, the phenomenon of relocating investment "back north," with the less developed economies of the EC being the main beneficiaries threatens the Philippines. Japan, South Korea, Taiwan and the U.S. — the main investors in the Philippines — have increased capital investment in the EEA countries in anticipation of the new rules that will govern that large market. Japan has done likewise in Mexico. While this has not decreased the values moving into ASEAN, AFTA will be necessary to respond to the potential diversion of investment away from the region by enhancing ASEAN's attractiveness as a regional market of some 317 million consumers. AFTA thus provides an opportunity for the country to continue on its economic liberaliza-

tion program that would encourage Philippine industry to become more competitive in the AFTA market as a first step towards becoming competitive in the larger global market.

Despite the differences in the level of economic development, ASEAN has moved ahead on the first phase of AFTA. In this regard, Philippine foreign trade policy can be seen as an attempt to work with the Philippine private sector to position Philippine goods to the country's advantage, and to minimize the trade-diversion effects of the EEA and NAFTA on the country.

### Conclusion

Since its independence in 1946, and until recently, the goals of Philippine national policy have directed foreign relations on a certain course. With a chaotic world environment presenting the country with new challenges, the need to refocus foreign policy to meet domestic requirements of political, social and economic security is a major concern of the Ramos Administration.

As a country in transition, stabilizing its new democratic institutions and working to reshape and resolve its economic problems in a world which is no longer defined by ideological conflict, Philippine foreign policy is being redefined from one of reliance on a single superpower to a more balanced system of reciprocal relationships and multilateral engagements.

Commitment to the rule of law has fashioned an unswerving support for the United Nations. The reality of geography and the imperatives of regional cooperation have placed the country's destiny in the Asia-Pacific setting and stimulated its active membership in ASEAN. Close relations with the United States have historically dominated the foreign affairs agenda from the start but are now the subject of a substantial refocusing of interests and a reevaluation of emphasis. Trade relations and economic needs have promoted intensified ties with Japan and Europe. The commonality of interests has forged greater identification with the developing countries of the World.



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