

CHAPTER 1
TOWARDS A FRAMEWORK FOR
THE TRANSFORMING ECONOMIES OF EAST ASIA

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1. Introduction

In recent years the transformation of the economies of Eastern and Central Europe and the former Soviet Union has captured the attention of economists. However, a growing demand for policy advice, technical assistance and expertise is also coming from Asian reforming economies (REs) such as China, Mongolia, Vietnam, Laos, Cambodia and Vietnam. Business communities are increasingly interested in exploring investment and marketing opportunities in these reforming countries.

It is difficult to unravel and understand the uncertainties and absurdities of more than 50 years of communism, let alone replace the system which is subject to forces which authorities and governments do not understand. The whole fabric of support is abruptly removed without being replaced by fundamental institutions, policies, regulations and a mind set which are appropriate for economic transformation. Such developments are too important to overlook or ignore. We do not have any precedence and as such no models to fall back on.

The transformation of socialist economies towards market-based systems spans an unusually wide range of problems which range from the absence of hard currency and cohesive laws to a lack of business culture. Studies of related topics are complicated by the pace of changes and the lack of clear historical precedents. Although the structural features of Asian reforming economies (AREs) are in important ways different from those of the Eastern European reforming economies (EEREs), all socialist economies share similar fundamental conditions on the eve of economic reform which raise a similar set of reform issues. The process of transition in AREs however will take on a different dimension given diversities in the social and cultural matrix. This volume attempts to present a framework under six main areas.

2. The Role of the State in Transition

One of the dilemmas facing governments of reforming economies lies in defining its role in a fast changing environment while at the same instance maintaining political, economic and social order. Political and economic objectives are often at odds with each other. To free the markets from inefficient controls, the authorities have to relinquish some political power. As such, political leaders have to strike a balance between the need for coordinated and political control and the pursuit of economic freedom.

The basic foundations of the free market philosophy are adequately dealt by Khan who looked at the need for government intervention and planning by first looking at the traditional schools of thoughts (Neo-classical or Chicago, Virginia and Austrian). The post second world war years were marked by the introduction of Keynes and the structuralist school until the evaluation on the performance of planning experiences. Findings drawn from the experience of Less Developed Economies seem to suggest the lack of correlation between development planning by governments and economic growth except for the New Industrialized Economies of East Asia. The experience ASEAN countries during the post 1970 period however showed that while economic growth targets were achieved, social development objectives remained unfulfilled. The resurgence of free enterprise economics and neo-liberalism saw the pendulum going in favour of minimal government intervention. Amidst "market versus planning" arguments governments must balance the priorities between macroeconomic stabilization, decentralisation and liberalization, economic management and integration into the regional economies. The problem seems to be the lack of supporting policy instruments, institutions, legislation and the lack of political consensus. Governments should not do things individuals can do better but rather focus on cultivating a vibrant private sector, formulate policies which encourage competition and at the same instance address issues related to market failure.

For the government of Vietnam, redefining its role has become important and critical. Letting go after decades of command planning of the economy is not easy. While some leaders remain fundamentally opposed to western style capitalism, they are increasingly pressured to look for new directions in a changing world where its former socialist allies are all moving towards free markets. They are also being spurred on by former regional enemies who are experiencing tremendous growth rates under free market systems. One pragmatic approach which Vietnam could pursue is to pick its way cautiously through market and socialist principles and create its own development path which among its priorities is the reduction of bureaucratic red tape. For example, one major complaint by foreign investors doing business in Vietnam is, ironically the lack of central coordination in approving foreign ventures. Archaic procedures, a complicated legal system that offers little protection to investors, and the lack of communication between different government departments have hinder the flow of investment to the industrial sector.

Iyer's theoretical treatment focuses on selecting a working notion of the state which would assist in a detailed examination of specific links between economic policy, multi-sector activities and legal provisions. Contrary to misperceptions, the role of the state goes beyond just the enactment of laws which set business, economic and entrepreneurs in motion; neither can these laws be directly borrowed or modelled from existing market economies. Perhaps more fundamental, local perceptions of policy goals, the social cultural matrix and intended modes of operation will determine the content of these laws. Some justifications in the examination of the theories of the state and law in relation to REs are made. The foundations of the legal superstructure will rest on the theory of the state which integrates market and non-market features, the theory of economic pluralism (defined as

multi-sector production, distribution and competition) and the theory of the individual and corporate rights. This culminates in the notion of the plural state.

Taking on a pragmatic approach, Thomas examines the functions and tasks of the government by first looking at the experience in other countries. Reducing the size of government, limiting its power to establishing the policy environment for the economy and letting go in areas where the private sector has a comparative advantage characterize the common theme for government. The process is not a once and for all phenomena. It can be painful and destabilizing. Eight key qualities of good governance are discussed within the context of effective authority, allocative efficiency and effective allocation of values. These are then reclassified to take into account elements of economic transition. Whether or not reform initiatives succeed or fail will depend on timing, nature, intensity and location of reactions, and the public officials capacity to deal with them. The capacity to predict and mobilize resources to deal with the above factors will depend on the quality and availability of political, financial, technical and managerial resources.

On the same note of pragmatism, Song examines the issue of transforming an existing and outdated legal framework to one based on a market oriented economy. The success of such a transformation ironically depends on the state. The state has to act as initiator and a major player in identifying problems, formulating reform programs, regulating vested interests and specific needs and mobilizing resources. The problems and failures of REs ('big bang' approach of the EEREs versus the gradualistic approach of the AREs) are reviewed under several headings such as property rights, contract law, company law, foreign investment law and policy on competition. While the 'big bang' approach has immense problems associated with timing and coordination, the gradualistic approach in the shadow of political conservatism has its limitations. Economic liberalization in China and Vietnam have taken a gradualistic pace. Both have striking similarities but yet reform has differed in many respects.

The pace and sequence of reform is taken up by Peebles who gives an excellent review of issues relating to the sequence of reforms and policies with respect to stabilization, privatization and marketization. While legislation has its place in providing safety nets for economic and entrepreneurial activity to take place, reforms in general should create an environment in which the market economy can emerge and thrive. The information and signals must be transmitted in such a way as to merge the peoples' desire and ability to seize opportunities to improve. An examination of actual policies adopted in EEREs is discussed by considering various aspects of transition such as political instability and dissolution, the influence of outside organizations, the world economy in the 1990's, the role of time and the circumstances and background of various countries. Comparisons between EEREs and China seem inappropriate given differences in initial conditions and the nature and ultimate goal of reforms. However, there are lessons for China and Vietnam in EEREs' 'big bang' approach and lessons for EEREs in China and Vietnams' gradualistic strategy.

In redefining the role of government in REs, the issues of economic and administrative decentralization have to be addressed. The transfer of authority from the

central government to economic agents has not been smooth and straight forward resulting in tension between the central control and lower level control. The dilemmas of decentralization are addressed by Chen who shows that decentralization in one area of the politico-economic system such as the fiscal, financial or macroeconomic aspects can lead to failure in other areas. For example financial decentralization to local governments has led to regional protectionism, allocative inefficiency and macroeconomic instability. Thomas made reference to the development of the capacity to predict the timing, nature, intensity and location of reactions by vested or interest groups to initiatives to change. On a similar note Chen provides evidence on the behavioural changes of local government in a changing and dynamic environment. However, unlike the EERs, China and Vietnam have chosen to leave the political systems intact while at the same time to commit to market reforms. This complicates and makes the decentralization issue more pertinent.

3. Macroeconomic Issues

The transition from a centrally planned to a market economy is a highly complicated and largely unexplored journey. One of the many interactive elements pertaining to the macro economy discussed in this section is the introduction of competitive markets and the attendant price reform. Prices in centrally planned economies (CPEs) are administratively determined. Often, they are used by the government to redistribute income. As such, domestic prices in CPEs capture little, if at all, of the forces of demand and relative scarcities. While the CPEs remain insulated from international markets, administered prices play a passive role. The moment markets reforms are introduced, however, they present critical problems that have to be approached with care. For example, the Chinese experience result in high inflation in 1988 and 1989 when prices control were lifted on basic commodities such as food. Real wages were eroded and social unrest occurred in many provinces.

The problems involved in shifting from an administratively determined price structure to one that correctly reflects the relative scarcities of resources and goods are discussed by Chen. In general, such a price reform involves the relaxation of price controls in the markets for goods and services. Two different approaches to price reform have thus far been experimented with. One is the "big bang" or radical approach in which the majority of prices are freed simultaneously. The other is the "gradualist" approach characterized by the liberalisation of prices gradually over a number of years. The gradual approach was first used by Hungary in 1968 and later by Poland, China, and Vietnam in the 1980s. The first step in this approach is to allow state enterprises to sell output in excess of plan quotas at premium or market prices. Consequently, there appears a multiple-price system with the state-determined price at the lower end and the market-determined price at the higher end. Subsequently, state allocated resources, together with procurement quotas, are gradually reduced. It is hoped that as the scope of the market expands, non-market prices will become less and less significant. Radical price reform was used by Vietnam in 1989 and Poland in 1990. In both instances, almost all price controls

were removed simultaneously with the implementation of a series of measures that were aimed at reducing the budget deficit, inflation rate, and foreign debt. A comparison of the two alternative approaches reveal various similarities.

There are short-term and medium-term problems associated with macroeconomic stabilisation such as maintaining price, output, and employment stability. The experience of some REs suggests that in trying to stabilise the economy, a short-run decline in aggregate output may be unavoidable. At the beginning of economic reform REs are often faced with the problem of monetary overhang where there is an excess supply of money in the hands of consumers desiring consumption goods while the aggregate supply of goods in the economy lags far behind. One way to deal with monetary overhang is to allow the general price level to rise. Hoon points out that such a policy will reduce a worker's real wages, but ironically, this can actually improve his welfare by reducing the time he wastes in queuing for goods. Should REs be able to decrease demand sufficiently, the economy enters into a Keynesian regime with under-utilised capacity. In such a regime, a further decrease in real wages has a contractionary effect on aggregate output. While trying to eliminate the monetary overhang, the government has to be wary of runaway inflation. The danger arises because it is difficult for REs to maintain a balanced budget. Faced with the need to keep state-owned enterprises afloat to prevent mass unemployment while opportunities to borrow from the public and overseas are limited, the government may be forced to monetise the debt. Taking a long-term perspective on structural unemployment, Hoon presents a theoretical model where the level of employment is endogenously determined and depends on various structural and institutional factors that are subject to the choice of public policy. Theoretical effects of policy changes often included in the reform package are then analysed. These include opening the economy to international trade, investing in industrial infrastructure, developing private ownership, and encouraging savings. The theoretical results are then compared with available data on Vietnam.

Another problem REs face is the lack of an institutional and competitive framework that stimulates efficient behaviour because state-owned enterprises (SOEs) form the bulk of the economy. To establish a system of incentives characteristic of a capitalistic society, ownership of a majority of firms needs to be transferred to the private sector. An overview of the conceptual, theoretical and implementation issues surrounding privatisation is the focus of Asher. There is no strict definition for the term privatisation. It has been used to cover a wide range of market-oriented initiatives affecting ownership, performance, finance, organisation, and the business environment. Whatever method or technique privatisation may take, however, it is important to bear in mind the significant implications it has on legal arrangements. The privatisation efforts by EEREs and AREs is assessed here. The fiscal impact of privatisation is also discussed.

There is a limit to the extent and pace at which SOEs are privatised. Whatever the means chosen, some firms will remain in public hands for a long time. Peebles discusses the need and means to restructure and transform SOEs into autonomous and commercial organisations that have the rights and incentives to operate efficiently. Requirements for

enterprise reform include the establishment of autonomy for the firm, the creation of incentives for the workers and managers to achieve higher productivity, the establishment of a clear form of ownership over the firm, and the creation of a mechanism to discipline those who do not make efficient use of scarce resources. In providing a review of the experiences of China and other former CPEs in reforming the industrial sector, an assessment of the impact of reforms on the performance of state industrial enterprises is given.

State enterprise reform in Vietnam from 1988 to 1994 involved giving the enterprises greater autonomy while using market mechanisms as a tool of discipline. Recently, one observes a shift towards reinforcing the state's economic role through increased governmental control over strategic industrial enterprises. The model seems to be based on the South Korean concept of 'chaebols' which are vertically and horizontally integrated organisations which combine their financial, commercial and industrial strengths to compete in the international market.

The reform experience of China has certain unique features that are worth a closer look. In particular, Yu examines the successful development of non-state enterprises in China's rural sector. The emergence and rapid growth of rural enterprises in China has brought about large increases in rural personal incomes and significant changes in the rural labour force. The history and evolution of rural enterprises in China provides a good perspective when discussing the characteristics which contribute to making the rural enterprises the most dynamic productive factor in the Chinese economy. Features discussed include capital formation, labour and wage structure, profit and taxation structure, function of local governments, and market conditions. Attention is then shifted to more controversial issues like efficiency, energy utilisation, pollution and occupational safety. Although the development of enterprises has been rapid, it has been uneven across regions. To address this imbalance, the central government launched a series of policies from the mid-1980s. A summary of these policies is provided together with an analysis of more recent trends. Areas that need emphasis are pointed out. These include the implementation of a sound legal system and an equitable tax structure, the freeing of the price, foreign exchange, and export systems, and the encouragement of education and occupational training.

One of the pillars of the socialist system is the relatively equal distribution of income. This is achieved primarily through guaranteed employment and low wage differentials in the state sector. In contrast, economic and social goals are separated in market economies. The transition to a market economy will lead to higher unemployment. There is therefore a need for social safety nets to meet the needs of those who do not benefit from the market economy. The provision of social services such as education and health will be affected by the dismantling of the socialist system. Tyabji reviews the social security systems of the developing Asia Pacific countries with special attention on Vietnam. Two key aspects of social security are discussed, namely protection against a decline in living standards and promotion of improvements in living standards. Programs to achieve protection and promotion have to be both economically viable and politically

feasible. To make workers partially responsible for their own retirement needs and to make funds available for development finance, a provident fund scheme is recommended. Labour laws should promote prudent behaviour on the part of both employers and employees with respect to employment injury and occupational health. Related to the promotion of improved living standards are the issues of education, health, and family planning. The most important consideration of an education policy is to concentrate on the provision of primary education. Similarly, a policy on health needs to concentrate on primary preventive measures.

4. Fiscal and Monetary Reform

Realizing the objectives of economic growth and economic efficiency in Vietnam has led to the intensification of marketization and globalization. An outcome associated with decontrolling prices in the 1980's was hyperinflation which forced the government to establish some form of discipline in the budget and embark on tax reform to generate revenue. These reforms are discussed by Rao who also looks at revenue prospects and the possibility of an expenditure explosion. Added to this is the strain placed on the fiscal system with reforms in financial and public enterprise lagging behind price and exchange rate reforms. A major restructuring of public enterprise is needed together with general improvements in management skills. The provision of merit goods should be decentralized and matched by local indirect taxation. There is also a need to put into place appropriate budgetary control mechanisms.

In addressing issues pertaining to tax reforms, Shih takes to task the reliance of Vietnam on China's reform experience as a model to develop its own policies and procedures. However, the legacies of China's socialist economic system has hindered reform efforts. In examining the Chinese tax system, some weaknesses of the system are identified and some changes are suggested. These include broadening of tax base, abandoning the intergovernmental contracting system, reforming the Enterprise Contract Responsibility System, pricing out the 'external factors', and separating government's proceeds from ownership and taxation.

Key issues pertaining to the monetary and financial reforms are addressed by Khalid and Mangla. Drawing from the experience of the EEREs and Vietnam, key issues pertinent to banking reforms and the development of money and capital markets are examined. The fundamental problem in most EEREs is the passiveness of the monetary system in facing state enterprises. Further, few understand the impact domestic money supply has on government budget deficits. Money is no longer an accounting instrument of aggregation and control. Vietnam's experience is discussed under several topics such as fiscal deficits, banking and financial reforms, monetary policy, interest rates, privatization and the foreign exchange market.

5. Sectoral Issues

Labor market reform is a crucial issue for an economy in transition. At the micro level, old government controls inhibited the efficient allocation of labor resources. At the macro level, an increase in unemployment is an inevitable consequence of the transition to a market economy. Lu examines the major issues on labour reform and draws various lessons from the experiences of REs. The characteristics of human resource management in a CPE are first examined. The first feature is the control of the state over the composition of human capital in the economy, and over the determination of basic wage levels and their differentials across sectors, regions, positions, and rank. The second feature is the egalitarian nature of income distribution and the provision of generous welfare programs. The third is the implementation of forced savings to suppress demand for consumption goods. The fourth is the immobility of labour. The fifth feature is the commitment by the government to full employment and the under-employment of labour at the enterprise level. During the transition to a market economy, REs are forced to face the legacies of the old system. The most serious legacy is the low efficiency of state enterprises. Under the egalitarian reward system there is no incentive to be productive. With the onset of reform, however, firms are made more responsible for their financial health. Overstaffed enterprises are thus forced to lay off the excessive personnel. The welfare system becomes ineffective as well because benefits were tied to the job. Wage-push inflation may also appear as a result of the emergence of independent labour unions. Labour reform is thus an integral part of overall reform. Unemployment has to be correctly estimated and an effective social safety net created that can accurately target the needy. The development of the non-state sector is vital as more than half the jobs in market economies are provided by that sector. The need to invest in human capital is another task that has to be performed by the state.

In most CPEs the land market is non-existent. Land like all other resources is owned and allocated by the state. To attain efficient allocation of land resources a sound market mechanism has to be developed. Issues regarding the development of a property market are addressed by Lu. The government has to bear in mind the unique characteristics of real estate property which include its fixed location, uniqueness, interdependence of land use, long life, large transaction cost, and long gestation period. The development of a property market requires the expertise of specialists such as real estate brokers, property managers, financiers, valuers, planners and developers. While central economic planning is the target for abolition in the transition towards a market economy, the planning of the urban infrastructure has to remain in the central government's hand because of the extensive externalities involved in land use. The general planning principles and tools used for planning by developed market economies are discussed with special reference to the experience of Singapore in urban planning. Housing reform is also a key component of a successful transition to the market economy. The development of private home ownership and a reduction in public housing subsidies are essential features of such a reform.

Economic development and reform requires adequate and effective transport infrastructure and services. All REs have recognised the vital role played by transport distribution and management and have placed the sector as one of the priority sectors under price and market reform. Chin assesses the current status of the transport sector in Vietnam covering the road networks, railway systems, port infrastructure, airports, inland waterways and supporting services. The development of the sector is then evaluated in the light of future requirements. Strategies and solutions are suggested where bottlenecks are anticipated. These include intensifying and prioritising infrastructure investment, deregulating prices, privatising and introducing competition, accelerating foreign investment, formulating supporting regulations, developing human capital, and having a comprehensive national and regional transport development programme.

6. Investment and Trade

As part of economic reform, REs need to respond to the outside world by opening their markets to trade and attract foreign investments needed to finance economic development. This section deals with foreign investment and trade issues and the relationships with the development of the domestic economy. The most important spur to economic growth in REs is likely to be the growth of new private businesses. Foreign direct investment has to be considered as an important source of such new businesses. In fact, inflows of foreign capital may bring with them technology and management skills.

The impact of foreign direct investment (FDI) on the economic development of China and Vietnam are examined by Zhang who begins by first providing some background information on the patterns and overall operations of FDI. Attention is then focused on the contributions of FDI to economic growth, capital formation, employment, foreign trade, technological progress, and enterprise management. Both China and Vietnam have been able to attract substantial growths in the inflows of FDI. These trends reflect the continued efforts of the two economies in improving the foreign investment environment and providing attractive incentives. A comparison is made of the investment incentives provided by each country, revealing some lessons for similar countries. Joint ventures are an important form of FDI observed in many developing countries. They are seen as a good means of attracting technology that the developing countries lack. The performances of joint ventures in effecting technology transfers in China and Vietnam are also evaluated.

One strategy which has been used by developing countries in attracting FDI is the setting up of free trade zones (FTZs). Given a variety of alternative strategies available to the host country, it is important to understand the exact role of FTZs in fostering industrial development and to determine if they are more effective than the other policies. Tan explains the appeal of FTZs to former REs, and provides the economic rationale for the choice of FTZ over other forms of incentives given to foreign investors like fiscal subsidies and tax holidays. In practice, the success of a FTZ depends on how it is implemented. The experiences of two FTZs in Asia are used to illustrate the problems a

host country may face in implementing the FTZ concept. As a country develops, its objectives and priorities are likely to change. While it may have previously concentrated on maximising the size of the FDI inflow, a more mature economy will be more concerned with the nature and quality of the FDI being brought in. The central feature of the FTZ can be adapted into the concept of Science and Technology Parks (S&T Parks) in which the foreign firms must satisfy certain technological criteria.

China has given the concept of FTZs an added dimension in the creation of Special Economic Zones (SEZs). Besides the preferential treatment given to foreign firms operating in the zones, the administrative set up within the SEZs is different from the rest of the country. Zuo takes up this theme by providing a closer look at these SEZs in China. After a brief description of the historical development of SEZs the features of the SEZs are discussed. This includes the roles played by the central and local governments, and the areas in which SEZs enjoy special treatment. Policies on land use, labour, taxation, and foreign exchange, for example, show preferential treatment for foreign investors and export producing firms. The performances of SEZs have not been without problems as they have been criticised for, among other things, foreign exchange leakages, cost ineffectiveness in attracting FDI, failure to achieve stated objectives, and increases in social problems. However, SEZs have been successful in two important aspects. First, they have provided the rest of the country with a demonstration of how to achieve economic growth. Second, they have had a positive impact on the mind set and work attitude of the people.

International trade under the CPE utilize foreign trade taxes and subsidies to insulate administratively fixed domestic prices from external fluctuations. For small and medium-sized REs, price reform for traded commodities can be achieved quickly by establishing currency convertibility and opening the economy to foreign trade. This enables the country to increase competition and improve resource allocation. Khan puts the issue of trade liberalisation in perspective by first providing an overview of the trade environment in REs. The experiences of several countries with trade liberalisation are discussed and some lessons are drawn. The economic rationale and objectives for trade reform are also presented together with the two contrasting approaches to trade liberalisation, namely the "big bang" and "gradual" approaches. Important considerations for trade liberalisation such as the effect on the trade balance, the fiscal impact, and the relationship with neighbouring countries are also discussed. It is important to embark on an early announcement of any trade liberalisation programme. This establishes credibility and prepares economic agents. In addition, preparation have to be done in the form of reviewing the existing trade regime, documenting the proposed trade regime, and conducting studies of the effects on key sectors. Various possible designs of the trade liberalisation programme are also discussed with recommendations for the replacement of quantitative restrictions with tariffs, the rationalisation of tariffs, the removal of bias against imports, the adjustment of the exchange rate, the removal of restrictions on currency convertibility, and the phasing of trade liberalisation. Finally, the framework for trade liberalisation is applied to Vietnam with proposals.

7. Lessons from Regional Economies

The road towards a market economy could perhaps be guided by the experiences of economies within the region, namely the NIEs and ASEAN. These countries with differing social, political and cultural backgrounds have chosen rather similar strategies in achieving economic growth and development. The presence of a strong government and industrialization strategy, and the stress on human capital development during the early stages of development provide a valid paradigm for economic progress of AREs. Except for Hong Kong and Singapore all countries have large agricultural sectors which have modernized amidst rapid industrialization. Indeed as pointed by Tan, the development of NIEs has helped to stimulate the current industrialization drive of Vietnam and China. Vietnam's desire to emulate its ASEAN neighbours' rapid economic growth is reflected in its decision to join the regional grouping in 1995. While some Vietnamese business are worried about surviving once tariffs are lowered and the economy opened up to its ASEAN neighbours, others see this as an opportunity to sieve out inefficient entities within the economy and attract much needed investments.

Tongzon draws upon the similarities between the ASEAN countries and Vietnam in addressing the question of relevance in economic development. Some of these include the abundance of natural and human resources, a great dependence on a sizeable agricultural sector, high levels of unemployment, export instabilities, low savings and low per capita income. In assessing the economic performance of ASEAN countries, it was noted that economic performance was greatly influenced by excellent export performance, large inflows of foreign investments, political and macroeconomic stability and an active government. In perhaps adopting and adapting some of these strategies AREs might wish to avoid the mistakes of import-substitution strategies, focus on attracting foreign investments and capital, and the the same instance pay heed to the pattern of income distribution during transition.

Moving away from the experiences to future developments within ASEAN, De Simone explores the difficulties associated with the implementation of the ASEAN Free Trade Area (AFTA). Adopting a macroeconomic approach, the relationship between market integration, macroeconomic performance and policy integration are addressed. The implications for Vietnam are considered in the light of problems which might beset the AFTA, and macroeconomic and trade policy implications. However, it would require on the part of Vietnam proper macroeconomic policy coordination and discipline to respond and take advantage of the liberalization of markets within the region.

On a cautious note Chia examines the problems and prospects of integration of Indochinese countries into the regional economy. In reviewing the existing framework of economic cooperation within ASEAN a rush towards incorporating the Indochinese economies is premature. These economies must establish and develop the basic framework for a market economy. Failure to do so would result in the application of 'emergency brakes' to the mature economies of ASEAN. This could result in negative consequences. The experience of Germany after reunification and lessons from EEREs are referred to.