

CHAPTER FOUR

ASEAN ECONOMIC ISSUES

4.1 At the outset of the inquiry, prospects for continued strong economic growth across the ASEAN region appeared solid. While the ASEAN economies had experienced some slowdown in growth through 1996, resulting both from a softening in major export markets, such as electronics and primary commodities, and reduced export competitiveness linked to real exchange rate appreciations, most analysts confidently forecast GDP real growth rates for the region in the range of 6-8 per cent for 1998. Much of the early evidence received by the Committee reflected this general confidence in the region. Submissions pointed to ASEAN's high savings and investment rates, stable macro-economic environment, high productivity and profitability as significant reasons why the ASEAN economies would continue to share in the East Asian 'miracle'.

4.2 Twelve months later, such confidence has largely evaporated. The so-called 'Asian financial crisis', which began with dramatic currency devaluations in South East Asia in July 1997, and rapidly spread to financial and capital markets, has resulted in a steadily worsening liquidity crunch, undermining growth and economic stability throughout the region. According to some reports, overall real economic growth across the region may fall as low as 1 per cent for 1997, a far cry from the 7 per cent average recorded through the first part of the 1990s. The region's ten countries had economies valued at about US\$730 billion in 1996, but that figure may have fallen to less than US\$650 million last year and are now valued at well under US\$500 billion.¹

4.3 In the light of these developments, much of the evidence to the inquiry must now be assessed in terms of a significantly changed economic environment. This chapter will firstly concentrate on the structural elements of ASEAN's development as an organisation focused on increasing economic integration and cooperation in the region. It will then consider Australia's economic relations with ASEAN, both as a regional association and through relations with its member states, and the nature of future linkages. The following chapter will attempt to provide some analysis of the economic crisis, its extent and causes, regional impact, its implications for ASEAN as a grouping, and Australia's trade and investment interests in the region.

Introduction

4.4 While it is clear that ASEAN as a regional association has benefited greatly from the impressive economic growth of its member states over the past ten to fifteen years, ASEAN's role in laying the foundation for increased growth and economic cooperation in the region is less clear. As DFAT notes:

ASEAN as an institution has played less of a role in the economic dynamism of the region than in its contribution to regional security. Basically, the economic growth has occurred because of the policies

1 Exhibit No. 47, *The Australian Financial Review*, 12 January 1998, p. 12.

and the practices of the individual members. It was not a case of ASEAN coming first and creating the conditions for economic growth.²

4.5 Perhaps ASEAN's most significant contribution to economic growth has been to create a climate of stability in the region, enabling member countries to concentrate resources on national development. By working to moderate tensions among its members, promoting dialogue and fostering networks of private and public sector communication, ASEAN has helped to create a spirit of trust and confidence which has enhanced economic growth prospects and security in the region. ASEAN has also provided the region with an identity, and a platform for dealing with the international community on international trade and development issues. In this capacity, ASEAN has been highly effective in asserting the region's economic interests through its external relations with third countries, in multilateral fora such as the World Trade Organisation (WTO)³ and the United Nations Conference on Trade and Development (UNCTAD), and trans-regional initiatives such as the Asia Pacific Economic Cooperation (APEC) forum.

4.6 In contrast, ASEAN's effectiveness in pursuing regional economic development and cooperation has, until relatively recently, been limited. Through the early 1980s, the four largest ASEAN nations (Indonesia, Malaysia, the Philippines and Thailand) maintained import substitution policies which tended to complicate efforts to facilitate intra-regional trade.

Economic cooperation schemes, preferential trading arrangements and the like were attractive to ASEAN members because they offered the possibility of a larger market to support domestic industries, but were problematic in that each nation jealously wished to guard its internal markets for its own firms.⁴

4.7 As a result, many ASEAN cooperation schemes either floundered at the implementation stage, as a result of market access complications, or were confined to the economic periphery, where they eventually stalled through lack of interest. At a practical level, ASEAN's 'modest' progress towards regional economic objectives also reflected the limitations of a fledgling organisation which lacked the institutional resources and expertise to implement such schemes.

4.8 Rapid economic growth, starting in the late 1980s, gave the ASEAN region and the association itself a greater sense of self-confidence and identity. With that came renewed enthusiasm for and commitment to the idea of regional economic cooperation. The establishment of the ASEAN Free Trade Area (AFTA) in 1993, and a range of other initiatives encouraging regional industrial cooperation, investment and sub-regional development, signalled ASEAN's determination to strengthen its economic rationale, capitalise on the dynamic advantages of integration, and through that, maintain the momentum of economic growth in the region. As ASEAN entered its 30th year, the vision of a fully integrated market, comprising some 422 million people, and with a combined GDP of over US\$600 billion, appeared to be less rhetoric than reality.

2 DFAT Transcript, p. 4.

3 Formerly the General Agreement on Tariffs and Trade (GATT).

4 Exhibit No. 14 (v), Paul Bowles, *ASEAN, AFTA and the New Regionalism*, 1996, p. 221.

4.9 If the severe, although uneven, economic downturn in the region has dented ASEAN confidence, it does not appear to have called into question either ASEAN solidarity or commitment to regional economic cooperation. In response to the steadily worsening liquidity crunch facing both Thailand and Indonesia, ASEAN members were quick to take the initiative, floating the concept of an 'Asian Fund', an independent loan facility which could be extended to Asian economies, and which would supplement the International Monetary Fund's (IMF) assistance efforts in the region. In December 1997, ASEAN Leaders released their Vision 2020 Statement, a blueprint for future regional cooperation covering all areas of collaboration, including removal of tariff and non-tariff barriers, trade in services and investment, customs procedures and standards.

4.10 Still, the economic crisis does raise important questions, of ASEAN's role in fostering continuing economic stability and development in the region, its ability to consolidate progress on regional economic cooperation and maintain the momentum of trade liberalisation under the AFTA initiative, and its willingness to constructively address problems which have combined to undermine growth in the region; weaknesses in the regulatory framework governing financial systems in many economies; a lack of accountability in government decision-making processes, and a non-inclusive political process that has promoted cronyism and corruption.

Economic Growth - Regional Overview

4.11 Through the first part of the decade, ASEAN member countries exhibited remarkable, some would argue miraculous, economic growth, which easily exceeded OECD averages and that of most other newly industrialising countries. As noted above, much of this growth was driven by rapid trade expansion, particularly trade with North Asia and the United States. By 1995, ASEAN's four largest economies ranked among the world's top twenty trading nations, accounting for 7.9 per cent of total world exports and 9.9 per cent of total world imports.⁵

4.12 Reflecting this rapid expansion, total trade by ASEAN more than doubled from US\$296.2 billion in 1990 to US\$694 billion in 1996, an annual average growth rate of 17 per cent. In 1996, total ASEAN exports were valued at \$US331.8 billion, an increase of 6 per cent on 1995 totals, while total ASEAN imports were estimated at US\$362.2 billion (an increase of 5 per cent on 1995). This relative slowdown reflected weakening global demand for ASEAN principal exports (particularly electronic goods, primary commodities such as rubber, oils, and timber products), the significant appreciation of real exchange rates vis-a-vis

5 Austrade Submission, p. S288.

Table 4.1: Strong ASEAN Fundamentals

(table-d)

the Japanese yen, and reduced ASEAN demand for imports (particularly industrial inputs) resulting from tighter monetary policies.⁶

4.13 Intra-ASEAN trade grew at an annual rate of 22 per cent over the period 1990-96, reaching approximately US\$127 billion in 1995. Intra-ASEAN trade activity remains heavily concentrated in three ASEAN economies, with Singapore, Malaysia and Thailand accounting for nearly 90 per cent of intra-ASEAN trade in 1995. Despite the significant increase in trade between ASEAN members, intra-ASEAN trade remains a small part of total ASEAN trade, accounting for around 19.6 per cent in 1995 (up from 16.4 per cent in 1990). If transshipment of ASEAN sourced goods through Singapore is discounted, the intra-ASEAN share of total ASEAN trade could be as low as 12 per cent. Clearly this share will rise with progressive regional liberalisation under the ASEAN Free Trade Area (AFTA) initiative (see below). Recent trend annual growth rates indicate that intra-ASEAN trade grew by 21.6 per cent between 1991 and 1995, compared to 15 per cent for the world overall, however it is estimated that intra-ASEAN trade will still only account for around one third of total ASEAN trade by 2003.

4.14 Sustained high levels of foreign investment, both direct and portfolio, have also been an important factor in ASEAN growth over the past decade. Large inflows of foreign direct investment (FDI) were attracted by low labour costs in the region, relative political stability and a range of incentives offered by ASEAN governments. In recent years the global investment environment has become increasingly competitive, and ASEAN's share of FDI to developing countries, and within Asia, has dropped significantly, raising concerns that growth momentum and development plans would inevitably be slowed. For example, ASEAN's share of total FDI flows to developing countries declined from 37 per cent to 21 per cent in 1993. Causes for the decline include the advent of trade blocs, such as NAFTA and the European Union (EU), which attracted heavy investment 'behind' emerging trade barriers; the establishment of unilateral investment liberalisation programs by FDI competitors, such as China and Taiwan; and the related, shifting comparative cost advantage from ASEAN economies to cheaper wage cost locations.⁷

4.15 Since the early 1990s, ASEAN economic growth has increasingly relied on more liquid (and in hindsight more volatile) portfolio and equity investments from abroad. For example, in 1995 foreign capital flows to Thailand peaked at 12.5 per cent of GDP; an estimated 95 per cent of that inflow was not fixed investment related, but consisted of equity and portfolio placements.⁸ Other ASEAN economies experienced similarly high inflows of portfolio investment during the period (see Table 4.1).

ASEAN - External Economic Relations

4.16 Given the reliance of ASEAN members on external trade, and the relatively small proportion of total trade accounted for by intra-ASEAN flows, ASEAN as a grouping has had, and continues to have, a critical interest in maintaining strong external relations. As a result, much of ASEAN's economic focus has been concentrated on improving access for

6 DFAT Submission, p. S384.

7 *ibid.*

8 Exhibit No. 56, Manuel F Montes, *Growing Pains: ASEAN's Economic and Political Challenges*, Asia Society: Publications, p. 3.

ASEAN products in global markets, and strengthening the rules of the international trading system.

4.17 The original ASEAN members were contracting parties to the former General Agreement on Tariffs and Trade (GATT), and along with Brunei, have become original members to the successor body, the World Trade Organisation (WTO). ASEAN, as an informal coalition, has continued to play an active role in multilateral trade negotiations, for example the recently completed WTO Agreement on Financial Services.

4.18 An increasingly important part of ASEAN's external economic focus is the Asia Pacific Economic Cooperation (APEC) initiative, although the association itself has no formal linkage with the body. In 1989, the then six members of ASEAN (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) attended the first APEC meeting, and have since participated actively in the APEC process of regional economic dialogue and trade and investment liberalisation and facilitation.⁹ Vietnam has recently been admitted to APEC, however there is no automatic link between membership of ASEAN and membership of APEC. APEC ministers have agreed to a limited expansion of APEC membership over the next five years, with admissions to be made on the basis of consensus and eligibility criteria established by APEC members over the course of 1997.

ASEAN Economic Cooperation

4.19 While one of the primary objectives of ASEAN, as set out in the Bangkok Declaration of 1967, included 'accelerating economic growth ... of the region through joint endeavours ... in order to strengthen the foundation for a prosperous and peaceful community of South East Asian nations',¹⁰ it was not until the first ASEAN Heads of Government summit in 1976 that the Association began to develop a substantive program of regional economic cooperation. This program, outlined under the Declaration of ASEAN Concord (1976), focused on a number of areas, including: encouragement of imports of basic commodities from within ASEAN, cooperation on the establishment of large-scale industrial projects, intra-ASEAN trade liberalisation, and the establishment of mechanisms for regular dialogue and consultation between ASEAN members on economic issues.

4.20 In line with the ASEAN Concord action plan, a number of other agreements on economic cooperation were concluded, most significantly the ASEAN Industrial Projects (AIP) scheme (1976), and the ASEAN Industrial Complementation (AIC) scheme and the ASEAN Preferential Trading Agreement (PTA) in 1977. None of these initiatives, however, proved particularly successful. For example, by 1983, the AIP, which was aimed at promoting industrial joint ventures among ASEAN members, had resulted in only one completed project (a fertiliser plant in Indonesia). The PTA, which was intended to promote intra-ASEAN trade through reciprocal tariff concessions and liberalisation of non-tariff barriers, also failed to make much of an impact. While many thousands of items were listed for inclusion under the PTA, most were of marginal significance to intra-ASEAN trade. By 1984 the scheme covered no more than 2 per cent of total intra-ASEAN trade.¹¹

9 DFAT Submission, p. S393.

10 Bangkok Declaration, see Appendix 4.

11 Exhibit No.14 (v), P. Bowles, op. cit., p. 32.

4.21 The early lack of success in the development of ASEAN economic cooperation, particularly in terms of facilitating intra-ASEAN trade, has been attributed to a number of factors. Most commentators cite the lack of complementarity which existed between ASEAN economies, obvious differences in levels of industrial development, and the higher priority given by ASEAN member governments to national economic development plans, including inter alia, emphasis on import substitution policies and industry protection. To a certain extent, ASEAN's 'modest' progress also reflected the view held by many that regional cooperation efforts and regional trade arrangements in particular, represented an alternative to dependence on international markets. Given the traditional reliance of ASEAN members on external trade, and the resultant low volume of intra-ASEAN trade, few saw immediate benefit in establishing trade and investment arrangements which would encourage intra-ASEAN economic activity.

4.22 ASEAN's attitudes towards and commitment to improving regional trade flows and economic cooperation changed significantly in the early 1990s. This shift was largely a response to changes in the global economy, including greater liberalisation of international markets and the integration of industrial production across borders. It was also a response to the emergence of regional trade bloc in other parts of the world, and the recognised need to develop an ASEAN market and production base which would be attractive to foreign investment. Beginning with the Fourth ASEAN Summit, held in Singapore in 1992, ASEAN's renewed regional economic focus was reflected in the launch of a number of trade liberalisation and economic cooperation initiatives. These included the Framework Agreement on Enhancing ASEAN Economic Cooperation (1992), which provided for the establishment of an ASEAN Free Trade Area (AFTA), a range of initiatives on cooperation in investment, services and intellectual property (1995) a revamped industrial scheme (1995), and a number of sub-regional growth triangles (1991-95).

4.23 ASEAN's determination to expand the scope of regional liberalisation and strengthen economic cooperation is evident in the recent Vision 2020 Statement, issued by ASEAN Leaders at the recent second Informal Summit in Kuala Lumpur in December 1997. The statement, though short on specifics, emphasises ASEAN's commitment to 'build upon the foundation of our existing cooperation efforts, consolidating our achievements, expanding our collective efforts and enhancing mutual assistance'.¹² More substantively, the statement notes ASEAN's long term commitment to a range of economic initiatives, including: full implementation of the AFTA initiative and accelerated liberalisation of services trade in the region; the realisation of an ASEAN investment area by 2010; and the intensification and expansion of sub-regional cooperation in existing and new sub-regional growth areas.¹³

12 Exhibit No. 56, ASEAN, Vision 2020, Second ASEAN Informal Summit, 14-16 December 1997, p. 3.

13 *ibid.*

ASEAN Free Trade Area

4.24 The centrepiece of ASEAN's regional economic focus has been the ASEAN Free Trade Area (AFTA) initiative, which was introduced in January 1993. The primary objectives of the AFTA initiative were to liberalise trade within ASEAN through progressive tariff reductions on selected products, facilitate the integration of ASEAN as a market and a competitive production base, and attract increased levels of foreign investment.¹⁴ The initial AFTA program provided for a reduction on intra-ASEAN trade barriers to tariffs of less than 5 per cent over the 15 years from 1 January 1993, to be achieved via a Common Effective Preferential Tariff (CEPT) scheme.

4.25 Under the CEPT scheme, each member country provided schedules of voluntary reductions in nominated items. In this context, it should be noted that the initial AFTA program was not comprehensive, and members were free to exclude sensitive goods from their schedules. Phased reductions, under the CEPT scheme, were initially limited to manufactured products, including capital goods, processed primary products and non-agricultural products. The CEPT consisted of two tariff reduction schedules, a fast and normal track, which together extended to around 80 per cent of all ASEAN tariff items. For fast track products, tariffs were to be reduced to 5 per cent or less in ten years, or seven years if the tariffs were already at a rate of 20 per cent or less. For normal track products, tariffs were to be reduced to 5 per cent or less by 2008, or 2003 if existing rates were already at 20 per cent or less.

4.26 The initial AFTA program also required members progressively to remove quantitative restrictions and other non-tariff barriers (NTBs) on goods covered by the CEPT scheme within 5 years of the product reaching the 20 per cent tariff level, although this undertaking has subsequently been strengthened to provide for the elimination of NTBs before 2003. However, the AFTA program provided little indication of how NTBs affecting trade in products covered by the CEPT were to be identified or eliminated. More importantly, the initial program did not cover trade in sensitive items, such as unprocessed raw materials. It also avoided the broader problem of non-tariff barriers (non-CEPT specific) and impediments to investment - including customs procedures, sanitary and phytosanitary regulations and procedures, safety regulations, employment of non-nationals, local equity regulations, restrictive licensing requirements or limits on repatriation of profits by non-nationals and so on.¹⁵

4.27 The limitations of the initial CEPT scheme, and the potential for further expansion of intra-ASEAN trade, were quickly recognised by ASEAN member countries. In 1994, the timetable for tariff reductions was sped up to a maximum of ten years and agreement was reached to progressively expand CEPT coverage to items on member countries' 'exclusions' list and a range of agricultural products. In late 1995, ASEAN decided that most unprocessed agricultural products should be included in the CEPT scheme, and that all remaining unprocessed agricultural items on the 'temporary exclusions' list should be eliminated by 2003.¹⁶ A number of other trade facilitation measures were also subsequently incorporated into the AFTA program. These include harmonisation of customs matters (tariff

14 Exhibit No. 60, ACCI, *AFTA: What's in it for Australian Business?*, October 1997, p. 3.

15 Exhibit No.59, Centre For International Economics, *Economic Benefits from an AFTA-CER Free Trade Area, Vols 11*, 22 August 1997,p. 3.

16 DIST Submission, p. S537.

nomenclature, customs valuation systems, customs valuation systems, customs procedures and the establishment of a Green Lane System to help expedite clearance for CEPT products) and mutual recognition of product standards.¹⁷ Further, an AFTA dispute settlement mechanism was introduced in 1996, although it has yet to be employed.

4.28 AFTA has thus evolved over time, from a preferential trade arrangement based on reductions to tariffs on intra-regional trade, to a more comprehensive trade liberalisation and facilitation program. Subsequent declarations and agreements have quickened the pace of reform, broadened the coverage to include agriculture and non-tariff barriers, and deepened proposed tariff cuts.¹⁸ By the start of 1997, the CEPT scheme covered over 42,000 tariff lines (about 90.6 per cent of all tariff lines in ASEAN), accounting for some 80 per cent of total ASEAN trade values. Average tariff rates for products covered by the CEPT scheme fell from 12.76 per cent in 1993 to 6.83 per cent in 1996.¹⁹ As a result of these various AFTA measures, intra-ASEAN exports of products included in the AFTA scheme has grown substantially (AFTA products accounted for an estimated 85 per cent of intra-ASEAN exports in 1995). Intra-ASEAN exports in total have also expanded, averaging growth of 30.46 per cent per annum between 1993-96, compared to 20 per cent for total ASEAN exports over the same period. Moreover, growth in intra-ASEAN exports has been widely shared. In 1995, intra-ASEAN export growth was most pronounced for the Philippines (66 per cent), Malaysia (23 per cent), and Thailand (11 per cent).²⁰

Other Initiatives

4.29 In addition to the AFTA initiative, ASEAN has developed, or is in the process of developing, a number of other elements to its regional economic program. Since 1992 ASEAN has concluded a number of framework agreements on trade in services (1995) and intellectual property (1995), instituted an Agreement on Customs (1996), implemented the ASEAN Industrial Cooperation Scheme (1996), and begun work on the development of an ASEAN Investment Area (AIA) initiative. It has also strengthened cooperation in a number of other areas, including finance, transport and communications, energy, tourism and small and medium enterprise development.²¹ This section will focus briefly on a number of areas of more-advanced ASEAN economic cooperation.

Services

4.30 As the AFTA program has deepened and widened, ASEAN efforts to expand the regional liberalisation process to other sectors of trade and investment has also intensified. The Fifth ASEAN Summit in 1995 saw the signing of a Framework Agreement on Services, which committed ASEAN members to commence negotiations on increasing market access and improving national treatment for ASEAN service providers in a number of priority service sectors. These sectors consisted of air transport, business services, construction, financial services, maritime transport, telecommunications and tourism.²² A Co-ordinating Committee on Services (CCS) with seven corresponding sectoral working groups, was

17 Exhibit No. 56, ASEAN Secretariat, ASEAN.WEB, *Economic Cooperation*, p. 3.

18 Exhibit 59, Centre for International Economics, op.cit., p. 4.

19 Exhibit No.14(z) , ASEAN Secretariat, *ASEAN Economic Cooperation: Transition and Transformation, 1997*, p. 202.

20 DIST Submission, p. S538.

21 Exhibit No. 14(z), op. cit, pp. 204-209.

22 ibid., p. 204

established in January 1996 to facilitate negotiations, which were originally scheduled to be completed by mid-1997.

4.31 However, the deadline for completion of negotiations has been pushed back to the end of 1998, with implementation presumably beginning in early 1999. Progress on negotiations has been slow, partly because of the sensitive nature of the sectors involved,²³ but also because service regimes in a number of ASEAN economies are still in the process of development.

Investment

4.32 Following the Fifth ASEAN Summit in 1995, ASEAN members began developing an investment initiative, to be known as the ASEAN Investment Area (AIA), to increase levels of intra-ASEAN investment and further enhance the region's capacity to attract higher and more sustainable levels of FDI flows. Although still in the planning stages, the proposed AIA is thought to include: a cooperation and facilitation program; a promotion and awareness program; and a program for liberalisation of investment regulations. ASEAN Ministers have agreed that AIA should be consistent with international agreements on investment, such as the WTO Trade Related Investment Measures (TRIMS) Agreement (1993), and should be realised as early as possible. A framework agreement on AIA is currently being negotiated (expected to be concluded in 1998); however progress has been slowed by difficulties stemming from competing national investment policies of individual ASEAN members, and problems in accommodating ASEAN preferential treatment within WTO-TRIMS commitments.²⁴

Industrial Development

4.33 Industrial cooperation has long been an important element of ASEAN economic cooperation, commencing with the ASEAN Industrial Projects (AIP) scheme in 1976. Despite the modest success of this initiative, and the low priority assigned to subsequent projects, such as the ASEAN Industrial Complementation Scheme (AIC), and the ASEAN Industrial Joint Venture (AIJV) scheme, ASEAN interest in the potential for increased industrial cooperation and integration has remained high.

4.34 In 1995, ASEAN member countries agreed that the existing industrial schemes be phased out and replaced by a new cooperative scheme which would take advantage of regional tariff liberalisation under the CEPT scheme. The Basic Agreement on the ASEAN Industrial Cooperation (AICO) Scheme was signed in April 1996 and became operational in November of the same year. The AICO scheme essentially aims to promote joint manufacturing activities of companies operating in ASEAN, through the provision of a range of tariff and non-tariff incentives. These include extending CEPT preferential tariff rates of 0 to 5 per cent to all products produced under the scheme, local content accreditation, and tax and credit incentives provided by participating member countries. As of October 1997, twenty AICO arrangement applications from automotive and automotive component manufacturers, consumer electronics and chemical companies had been submitted and were being considered by ASEAN governments.

23 DFAT Submission, p. S399.

24 *ibid.*

Intellectual Property

4.35 In addition to efforts to enhance the region's attractiveness to international capital flows, ASEAN has also begun to focus on the need to improve the region's capacity to attract technology transfer. In 1995, ASEAN members signed a Framework Agreement on Intellectual Property Cooperation which identified a number of priority areas, including: strengthening existing intellectual property (IP) legislation; improving administration and enforcement procedures; and promoting public and private sector awareness of IP rights and protections. A Programme of Action was subsequently adopted in 1996, which will progressively implement activities in areas identified by the Framework Agreement, and explore the possibility of establishing an ASEAN Patent and Trademark System.

Sub-Regional Growth Areas

4.36 Since the early 1990s, ASEAN governments have also concentrated on improving economic cooperation through the development of sub-regional growth area initiatives. These initiatives were viewed by ASEAN states as the logical extension of outward looking economic and trade policies, and the high levels of economic exchange between geographically contiguous or proximate, but politically separate border areas.²⁵ Sub-growth areas were also viewed as useful vehicles to attract foreign investment to less well developed areas of national economies, and capitalise on the synergies of existing natural economic linkages.

IMS-GT (SIJORI)

4.37 ASEAN's first sub-regional growth area, the Indonesia Malaysia Singapore Growth Triangle (IMS-GT), also known as SIJORI, links Singapore with the Malaysian state of Johor and the Indonesian provinces of Riau and West Sumatra. It began as a series of bilateral trade and investment arrangements between the three ASEAN governments, which were superseded by trilateral agreements formally establishing the initiative in 1994.

4.38 Much IMS-GT activity to date has centred on attracting investment to the region, much of it from Singapore, through:

- provision of tax incentives (for example in Johor);
- the establishment of industrial parks or estates (also Johor);
- the diversification of local industry toward value-added manufacturing (electronics and light machinery);
- the development of service industries (Riau Province); and
- the exploitation of natural resources (Riau province).

4.39 As a result, the IMS-GT has seen a rapid increase in the level of infrastructure, export-oriented industrial and commercial development. The level of investment to date has been significant. According to the ASEAN Secretariat, cumulative investments on Batam Island alone reached US\$4.2 billion by 1994. This investment was directed mainly toward machinery production, basic metals, chemical and electronics industries and agribusiness. Investment in Johor was estimated at about \$US6 billion.

25 Exhibit No.14(z), op. cit., p. 140.

IMT-GT

4.40 Given the success of the IMS-GT, ASEAN governments pushed ahead with a second sub-regional growth initiative, the Indonesia Malaysia Thailand-Growth Triangle (IMT-GT), which was formally endorsed in early 1993 and began implementation in 1995. IMS-GT covers the northern areas of Sumatra and Aceh in Indonesia, the four northern states of Malaysia and five southern most states of Thailand. The initiative aims to link more closely the economies of these areas, to exploit natural complementarities and comparative advantages and through that encourage the development of a regional export-oriented production base.²⁶

4.41 An Asian Development Bank (ADB) study in 1995 indicates that the IMT-GT is feasible, but will require concerted policy action on the part of the governments involved to overcome the relative lack of development in the region, bureaucratic complexities and other disincentives to trade and investment within the region.²⁷ To date, development and implementation of sub-regional cooperation projects under the IMT-GT initiative to date has been slow, although a number of projects have been approved. ASEAN contends that some US\$3.25 billion worth of projects had been signed in the IMT region in infrastructure-related areas like power stations, industrial estates, roads and rail, and oil and gas pipelines up to the end of 1996.²⁸

BIMP-EAGA

4.42 A third sub-regional growth initiative, the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) was formally established in March 1994. It comprises Brunei Darussalam; parts of the Indonesian provinces of Kalimantan and Sulawesi; the eastern states and territories of Malaysia; and Palahwan and Mindanao in the Philippines. Like the other sub-regional initiatives, BIMP-EAGA was established to:

- build on existing trade and investment links within the sub-region;
- increase investment flows and promote export-oriented industrialisation;
- promote joint development of the sub-region's extensive natural resources; and
- promote a more efficient, sustainable approach to regional development.

4.43 It was conceived as an open and flexible grouping, highly de-centralised, with private sector assuming a key role in the development of trade and investment activities.²⁹

4.44 The initial BIMP-EAGA ministerial meeting, held in March 1994, agreed on four areas for priority action: air linkages; sea linkages; fisheries and tourism. Working groups were established to develop projects in each of the four priority areas, and other areas such as agro-industry, construction and construction material, financial services, and telecommunications. At the time of writing, little information was publicly available on government or 'first track' BIMP-EAGA activities (for example, the progress of the priority area working groups) to date. In terms of private sector activity, a BIMP-EAGA Business Council Secretariat was established in November 1996 to represent private sector interest to

26 Exhibit No. 55(g), DFAT, East Asia Analytical Unit, *Growth Triangles of South East Asia*, 1995, p. 52.

27 *ibid.*, p. 63.

28 Exhibit No. 14(z), *op.cit.* p. 150.

29 NT Government Submission, p. S662.

BIMP-EAGA governments, provide business information on BIMP-EAGA and promote and coordinate commercial contact and networking within the sub-region.³⁰

Mekong Basin Development

4.45 The ASEAN Mekong Basin Development Cooperation (MBDC) initiative has many of the characteristics of the sub-regional growth areas, and aims to enhance the economic development of a trans-border region and encourage cross-border flows of trade and labour.³¹ The MBDC is also conceived as a means of facilitating the integration of the economies of the Mekong sub-region (in particular Myanmar, Laos, Vietnam and prospectively Cambodia) with ASEAN and attracting further inflows of foreign capital to the region.³²

4.46 The MBDC initiative, discussed and approved at the Fifth ASEAN Summit in 1995, identified a number of priority areas for Mekong region development, including:

- infrastructure (transport, telecommunications, irrigation and energy);
- agricultural production;
- sustainable development of forestry and mineral resources;
- industrial production;
- tourism and other services sector development; and
- cooperation in science, technology and environmental management.

4.47 Feasibility studies on a number of projects have either been completed or are currently in progress, including a proposal for a trans-Asia rail line linking Kunming in China to Singapore, and a range of other investment proposals, including a second Mekong bridge between Thailand and Laos.³³

4.48 In June 1996, ASEAN and invited Mekong River riparian State Ministers agreed to a Basic Framework for cooperation, which aims to support and complement the national development plans of countries in the Mekong basin and mobilise the participation of the private sector in the implementation of projects approved by the MBDC. Ministers further agreed to establish working groups on the trans-Asia rail link and finance respectively, the latter which has subsequently recommended the establishment of an ASEAN-Mekong feasibility study fund.

Assessment

4.49 While ASEAN has made great progress in developing a substantive program of regional economic cooperation over the past decade, it still has considerable work to do to achieve the level of regional economic integration envisaged in the appropriately titled ASEAN Vision 2020 statement. In addition to the pain of economic re-adjustment, and in some cases rehabilitation, the grouping faces a number of serious challenges in the years ahead.

30 DFAT Submission, p. S400.

31 *ibid.*

32 Exhibit No.55(d), DFAT, *Asialine*, December 1997, p. 27.

33 *ibid.*, pp. 31-32.

4.50 The most immediate of these challenges will be to restore stability and confidence in the region's financial markets in the wake of the recent crisis.³⁴ To date, this task has proven difficult. The serious economic problems now besieging Indonesia have, to some extent, tainted perceptions of the entire region, which in turn has led to continuing market 'nervousness' or volatility across ASEAN. In order to restore stability, and indeed build a solid foundation for future growth, ASEAN will have to address a number of significant governance problems affecting some (but not all) member States. These include: the often opaque relationship between government and big business, cronyism, the lack of adequate regulatory and prudential controls in many financial sectors, the lack of accountability and 'inclusiveness' in government decision-making processes. These are primarily problems for individual ASEAN governments (clearly some more than others), but they are also problems which ASEAN as a regional grouping will have to address. In order to restore stability to financial markets, and indeed, foreign investor faith in the region, ASEAN will have to give greater emphasis to regional consultation on and coordination of macro-economic and financial policies, as well as efforts to strengthen institutional capacity in the areas of financial administration and regulation.

4.51 A second, no less important, challenge for ASEAN will be integrating its newer and much less developed members, namely Vietnam, Burma and Laos (and presumably Cambodia in the near future) into both the organisation and the mainstream of regional economic development, growth and liberalisation.³⁵ The significance of this challenge should not be understated. The realisation of ASEAN's ambitious AFTA initiative, and the various elements of its economic cooperation program, depend on the ability and willingness of all ASEAN members to contribute meaningfully, both in terms of expanding the scope of regional trade liberalisation to sensitive areas and continuing domestic structural reforms which will further regional economic integration and attract much needed foreign capital back to the region. For ASEAN's transitional economies this will be a difficult task, made harder by a lack of resources and an institutional infrastructure largely built to the specifications of the command economy.

4.52 Perhaps more critically for the association, successful integration of its newer members will be important to ensure that ASEAN does not fracture into a two-tier grouping: the more developed, near new industrial economies (Singapore, Malaysia, Thailand, Indonesia); and the lesser developed, newer members. A 'two track ASEAN' would place considerable strain on the grouping, potentially complicating ASEAN's consensus-based approach to decision making, and certainly undermining the rationale of a 'common approach' to economic and trade development issues. The Australian Government has conceded that the expansion of ASEAN may place strains on the grouping and on the implementation of AFTA; however, it points out that AFTA membership should equally accelerate the process of market development and outward orientation of the newer ASEAN economies.

4.53 A third challenge, linked both to the issue of integration of new members and the recent regional economic slowdown, will be to maintain the momentum of ASEAN's trade liberalisation and cooperation agenda. This issue will be addressed more closely in Chapter 5; however, it is worth emphasising here that sustained effort on the part of ASEAN will be required to realise plans for further ASEAN liberalisation in areas such as investment, services and intellectual property. Similarly, initiatives on sub-regional cooperation and

34 The Asian economic crisis is considered in Chapter 6.

35 Exhibit No. 60, ACCL, *AFTA: What's in it for Australian Business?*, October 1997, p. 10.

development, such as the East Asia Growth Area (BIMP-EAGA), will require redoubled efforts from ASEAN Governments, both in terms of policy work and financial resources, to maintain momentum.

4.54 A fourth challenge confronting ASEAN, which is related to the issue of sound financial governance and efficient administration, is to ensure its global competitiveness in the longer term. The recent currency re-alignments may well prove to be positive for the hardest hit ASEAN economies in the short term, stimulating export competitiveness through the real depreciation of exchange rates. However, in the longer term, the ASEAN economies will have to address a number of other issues to maintain their competitiveness, both in terms of output and as a destination for international capital. These include the need to improve allocative and productive efficiencies in traditional, labour intensive industries; the continued need to develop human resources; access and utilisation of new technologies in an increasingly service-oriented global economy; and the need to capitalise on potential commercial synergies at sub-national and sub-regional level.

