

ASEAN: Greater Integration for More Rapid Recovery

Luncheon address by H.E. Rodolfo C. Severino,
Secretary-General of the Association of
Southeast Asian Nations, at the meeting of
the Standing Committee of the Pacific
Economic Cooperation Council (PECC)

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I wish to thank your chairman, my former boss, Bobby Romulo, for inviting me to be around for this meeting of the Standing Committee of PECC.

Being here reminds me of my first encounter with PECC. It was at the general meeting in Vancouver, in 1986. I remember that meeting for two things. One is the fact that it was the first time that representatives of China and Taiwan sat down together in an international body. The second is the offer that, as the Philippine Government representative, I made to the South Pacific countries of training in fisheries under the Philippines' modest technical assistance program.

As a non-governmental institution, PECC from the beginning advocated an inter-governmental body for economic co-operation in the Pacific. APEC is now with us, and has been for the past ten years.

PECC has remained closely linked with APEC, and APEC is the better for it. The unique tripartite composition of PECC ensures that, beyond the normal considerations and mental processes of government officials, its work is leavened by the fresh insights of academics and is anchored firmly on the ground by the pragmatic calculations of businessmen. APEC's linkage with and support from PECC have served it well. It has been a natural and useful partnership.

ASEAN and PECC are both observers in APEC. As Bobby Romulo and I sat side-by-side at the APEC ministerial meeting in Kuala Lumpur last November, we both wondered why ASEAN and PECC had not worked closely together before, when, in fact, it had become clearer and clearer over the years that they had much to share with each other, that each could benefit from the work of the other. I hope that my participation in your meeting today will lead to a close partnership between ASEAN and PECC in the future.

Today, I have been asked to update you on the economic situation in Southeast Asia, a situation that has caused so much concern in the rest of the Asia-Pacific, and on what ASEAN is doing about it. We

could also take a look at the longer term, at some of the measures that ASEAN intends to take in the next few years.

First, the Situation Today: Beginning of Recovery

Estimates and projections available to the ASEAN Secretariat indicate that ASEAN's economies should begin their recovery this year. Indonesia's gross domestic product, for example, is projected to shrink by 2.4 per cent. This would, normally, be bad news, but it would be much better than the -13.6 per cent recorded in 1998. Malaysia's economy is expected to grow by one per cent, far from the prodigious growth of the previous decade or so, but a distinct improvement over last year's hefty contraction. The Philippine economy, after being flat last year, is projected to grow by two or 2.5 per cent this year. The projection for Thailand of one per cent growth would be a marked improvement over last year's contraction of eight per cent. Remarkably, Myanmar's GDP is expected to continue to grow briskly, at 6.5 per cent, and Vietnam's by five or six per cent.

The World Bank has recently come out with even more optimistic estimates for the growth of Malaysia and Thailand this year, which the Bank is now projecting at two per cent for both.

Similarly, projections for inflation this year are encouraging. Inflation in Indonesia is expected to go down from over 70 to around 17 per cent, while Thailand's is seen as diminishing from eight to three per cent. The rates for Malaysia and the Philippines are projected to remain manageable at four and 8.5 per cent, respectively. For Vietnam, the average inflation rate is expected to remain at under ten per cent this year. Hardly any inflation is expected in Singapore. Consequently, interest rates are forecast to fall throughout the region. Exchange rates have stabilized.

Expectations for export volumes are just as optimistic, with the global demand for semiconductors and other electronic goods expected to rise. Indonesia's exports are seen to expand, in volume terms, by more than 20 per cent after contracting by 9.4 per cent last year. Thailand's exports are projected to keep growing at over four per cent and Vietnam's at over six per cent. Philippine exports are expected to continue their relatively rapid growth, at 15 per cent this year, somewhat slower than last year's 17 per cent. Malaysia's exports could grow slightly, after going down last year. Some analysts expect Singapore's export volume to contract some, but less than last year. Myanmar's exports are seen to expand by 7.5 per cent and those of Laos by a hefty 19 per cent, albeit from fairly low bases.

How ASEAN's economic performance actually turns out, of course, depends on a combination of and the interplay among three sets of factors — the national policies and reform measures that each member-state adopts, the strength of the co-operation within ASEAN, and developments elsewhere in the world.

National Reforms

I need not relate the details of the policies and measures that individual ASEAN countries have been carrying out to deal with the impact of the global and regional financial turmoil. They have been reported extensively in the media. I would just like to recall that, at their meeting in Hanoi last month, the ASEAN Finance Ministers undertook "to persevere with economic and financial re-structuring to ensure sustainable growth with stability" and re-affirmed their "commitment to expediting reforms in these areas".

What is little known is the fact that the ASEAN governments have begun to inform one another about their internal policies and reforms and have exchanged views on them. At their Hanoi meeting, the Finance Ministers reported to one another the measures that their governments had been taking to (1) revive domestic demand, (2) protect the poor, (3) revitalize the financial and corporate sectors, (4) strengthen transparency and good governance, and (5) mobilize additional resources to finance growth.

This sharing of information is motivated not only by the heightened need for transparency; it is also a mechanism for intensified consultation and mutual encouragement. It is the beginning of the peer review that the Finance Ministers have decided to undertake.

Peer review, in turn, is part of the surveillance process that the Ministers have established to help them keep track of macroeconomic trends and other economic and social indicators — and of any unusual glitches in them - and thus alert them to any impending problems. The process is operated by a special unit at the ASEAN Secretariat with initial funding and technical support from the Asian Development Bank. The ADB has a counterpart unit in Manila that provides that support and is to train ASEAN officials in the conduct of this novel activity.

For peer review to work, the Finance Ministries and Central Banks of ASEAN have to undertake frequent and intensive consultations. It is remarkable that ASEAN's Finance Ministers met formally for the first time only in March 1997. Before that, finance had not been in the mainstream of ASEAN co-operation. Now, however, of all ASEAN Ministers, the Ministers of Finance meet the most frequently.

Faster Integration

A strong and decisive ASEAN response to the financial crisis has been the acceleration of regional economic integration, although media speculation was the exact opposite. At their summit in Kuala Lumpur in December 1997, at the very time when the crisis was gathering momentum, the ASEAN heads of state and government declared very clearly:

We will create a stable, prosperous and highly competitive ASEAN Economic Region in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities.

Since then, in a series of agreements and decisions, some mandated by the leaders themselves, ASEAN has taken steps to move forward the implementation of the ASEAN Free Trade Area. The date for the completion of AFTA has been advanced to 2002 for the six original signatories of the AFTA agreement. The ASEAN Economic Ministers have agreed to push almost all traded products into the inclusion list for AFTA coverage. Of that list, 90 per cent of tariff lines are to have tariffs of no more than 0–5 per cent by 2000, with each country committing itself to make such tariff reductions on at least 85 per cent of its tariff lines. Thus, by the beginning of 2000, or less than nine months from now, AFTA will be substantially, if not formally, achieved. ASEAN is now looking, together, into those few sectors that may encounter problems with the more rapid pace of regional free trade and into how such problems may be overcome.

Beyond trade in goods, the Economic Ministers have turned their attention to trade in services, which are a bit more complicated. They have made commitments to bring down barriers to trade among ASEAN countries in seven services sectors — air transport, business services, construction, financial services, maritime transport, telecommunications and tourism. Now, upon the leaders' directive, they are working on a more comprehensive approach, looking to a new round of negotiations on trade in services in all sectors and all modes of supply. The round is to start this year and wind up in 2001.

ASEAN seeks to strengthen regional economic integration not only by bringing down statutory barriers to trade. Integration is also being fostered by co-operative measures to improve the operation of customs. Work is proceeding on common standards for products and processes. Transport linkages are being streamlined through landmark agreements on goods in transit and multi-modal transport. An agreement on inter-state transport is being worked out. Plans for road networks, railway links and trans-boundary gas pipelines have been laid.

Attracting Investments

The idea here, of course, is to improve the efficiency of production in ASEAN, stimulate competition, make trade easier, lower costs, create a larger market of half a billion consumers, and thus attract investments into the region — all of which have become urgent in the face of economic strains.

Beyond making trade freer and easier, the ASEAN leaders, at their Hanoi summit, decided to take direct steps to attract investments into the region. For investments applied for in 1999 or 2000 and approved, foreign investments are to be exempt from the corporate income tax for at least three years or given a corporate investment tax allowance of at least 30 per cent. They can be 100-per cent foreign-owned. They can import capital goods duty-free and have access to the domestic market. They can lease industrial land for periods of at least thirty years. They can hire foreign personnel. This would be in addition to the incentives that each ASEAN country already offers to foreign investors.

The leaders also agreed to waive the 30-per cent national-equity requirement for investments under the ASEAN Industrial Co-operation scheme for the 1999–2000 period. As you will recall, AICO is a scheme under which products of companies operating in two or more ASEAN countries immediately receive full AFTA treatment. A number of large Japanese and European multinational companies, many in the automotive industry, have already taken advantage of the scheme.

ASEAN members, of course, know that economic recovery in the region does not depend only on them, individually or as a region. At their meeting last month, the Finance Ministers expressed their confidence that “1999 will witness improved economic prospects for the region”. They cited the “return of stability in the foreign-exchange markets; rising current account surpluses and a build-up of reserves; substantial decline in domestic interest rates; easing of inflationary pressures; recovery in stock markets; improvement in consumer sentiment; levelling-off in the contraction of industrial production.”

External Challenges

But they also acknowledged several external factors — “challenges,” they called them — that could hinder economic recovery — “the risk of rising protectionism, a sharp reversal in the U.S. stock market, weakness in the Japanese economy, exchange rate misalignment of major currencies, and uncertainty of external financial flows.”

They, therefore, resolved to “adopt a more proactive role at various international and regional fora to ensure that (ASEAN’s) interests and priorities are given due consideration in any proposal to reform the international financial architecture”. The Ministers then laid down the ASEAN positions on several issues involved in the review of the financial architecture.

For the longer term, ASEAN has set its sights on rural development, small and medium enterprises, entrepreneurial training, the development of technology, including information technology, and the protection of the environment, as well as on the continued attraction of investments and financial co-operation.

The Hanoi Plan of Action, which ASEAN’s leaders issued at their summit last December, mandates the steps to be taken in those areas, now, for the fulfilment of the 1997 vision, beyond those that are already being undertaken. The ASEAN Ministers, committees and other bodies, together with the ASEAN Secretariat, have been working on specific activities and their expected concrete outcomes in carrying out these mandates.

On investments, for example, studies are to be undertaken on impediments to investment in ASEAN countries and how to eliminate them. A common ASEAN approach to statistics on foreign direct investment is to be worked out. Ways of encouraging technology transfer are being looked into. The impact of the liberalization of investment flows on certain specific industries is to be analyzed.

ASEAN is determined to build the ASEAN Information Infrastructure, and studies on its shape and contents are to be carried out.

In the new area of financial co-operation, studies are being proposed on capital account liberalization, the monitoring of short-term capital flows, the facilitation of cross-border financial flows, and the development of common financial practices and standards. An exchange-rate system and even an ASEAN currency are to be explored. Networking among development banks in the region is envisioned.

Small and Medium Enterprises

ASEAN is paying particular attention to small and medium enterprises. A match-making workshop involving ASEAN SMEs and those of other countries is being planned. Ways of attracting investments in SMEs specifically are being pursued. A regional export financing and credit guarantee scheme, and even an investment fund, for SMEs are under consideration.

In order to harness the region's human resources for productive activity and improve people's lives, co-operative programmes are to be worked out to develop the skills and spirit of entrepreneurship and the capacity for self-employment. ASEAN countries are to co-operate in their efforts to impart productive skills to women and out-of-school youth.

Among measures to raise the level of science and technology in the region are the development of a technology scan mechanism and a system of technological competitiveness indicators.

On the environment, apart from the work currently being done, ASEAN intends to set up an environmental database and public information programme. Ways of sharing environmental technology are to be developed.

Cushioning the Social Impact

In order to help cushion the impact of this and future economic downturns on people's lives, ASEAN is devising programmes to improve the region's capacity to design social safety nets and to assess the social impact of economic and other setbacks.

The growing problem of caring for the elderly and the disabled is to be addressed, and particularly prevalent communicable diseases are being dealt with in co-operation. More ways of fighting the manufacture of, trafficking in, and abuse of illicit drugs are being worked out.

These are just a few of the activities that ASEAN is going into in dealing with the economic and social problems that are emerging today. ASEAN cannot do it all by itself. Most of it has to be done in collaboration with ASEAN's dialogue partners, other countries, international institutions, foundations, and other non-governmental organizations. The ASEAN Secretariat is convening on 6 and 7 May a forum among these agencies to identify the areas where collaboration can be productively undertaken.

Trade and investment liberalization, facilitation and promotion, transportation and communications, co-operation in finance, industrial co-operation, small and medium enterprises, information technology, human resource development, the development and transfer of technology. If these sound familiar to PECC as areas for regional co-operation, then they indicate the extent to which ASEAN and PECC can and ought to work together.

PECC is doing much useful work in these areas. A certain amount of overlap with what ASEAN is doing cannot be avoided, but we can reduce wasteful duplication if we consult more closely with each other and cooperate with each other. We can begin by letting each other know what we are working on, as we are doing today. We can share the results of our studies. We could even work together on certain issues.

For example, PECC is doing studies on the state of the automotive industry in the region, a sector of great interest to ASEAN. PECC has also offered to work with ASEAN on developing the ASEAN

Information Infrastructure.

Seven ASEAN members belong to PECC. Many of our objectives coincide. We work for the same purposes, which are the breaking down of barriers between economies, expanding economic opportunities, nurturing the spirit of co-operation among the countries of the Pacific, and improving the lives of our peoples.

SOURCE: ASEAN Secretariat World Wide Web site <<http://www.aseansec.org>>.