

The Impact of the Economic Crisis on ASEAN: A Blessing in Disguise?

Keynote address by H.E. Rodolfo C. Severino,
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The topic of this forum asks the question: What is the impact of the financial and economic crisis on ASEAN?

When the crisis broke into public view, the answer was immediate. The “observers” and “analysts” perennially quoted in the media had their answer: Surely, the ASEAN countries will now retreat into their own nationalistic shells. They will build protectionist walls around them. They will pursue their own national interests. To each his own. Forget ASEAN solidarity. Forget ASEAN co-operation. The “observers” and “analysts”, herd-like, concluded: Surely, at the very least, AFTA — the ASEAN Free Trade Area, scheduled for completion in 2003 — is dead.

Now, what is the factual answer, as opposed to gloomy speculation?

In fact, the real impact of this experience on ASEAN has been to pull the ASEAN countries more closely together. It has opened them more widely to one another. It has strengthened ASEAN solidarity. It has intensified ASEAN co-operation. It has hastened ASEAN integration. The result has been the opposite of the public expectation, the outcome contrary to the popular prognosis.

As the “observers” and “analysts” were predicting doom for ASEAN, ASEAN’s leaders, meeting in Kuala Lumpur in December 1997, put forth their own vision for the association, their ASEAN Vision 2020. It was a vision of ASEAN “as a concert of Southeast Asian Nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development, in a community of caring societies” (*italics mine*).

Upon the suggestion of the Prime Minister of Vietnam, the leaders directed ASEAN’s ministers and officials, committees, and other bodies to draw up programmes of action and specific measures to move ASEAN closer to the realization of ASEAN Vision 2020, the vision of an ASEAN working together in concert, partnership and community. The ASEAN members and sectoral committees and working groups have done exactly that, with the Secretariat in a co-ordinating role. On the basis of their work, the leaders, meeting in Hanoi last December, issued the Hanoi Plan of Action.

Spurring the Recovery

The Hanoi Plan of Action is a set of measures and actions that ASEAN would undertake, in co-operation and solidarity, to respond to the challenges of globalization. For the short term, it would spur ASEAN's economies to recover and seek to protect the poor from the ravages of the crisis. For the longer term, it would preserve the environment, lay the foundations for solid and equitable development, and get ASEAN's work better known in the world.

Some of this work, of course, had already begun even before the Hanoi summit. ASEAN's leaders, ministers and officials had been working out concrete ways to hasten and deepen ASEAN co-operation and integration, in consultation with the business sector and non-governmental organizations.

They took a look at the regional and global financial turmoil and its impact on the lives of the region's people and saw what had to be done. Factories and businesses had to run at full speed again. Investments had to be brought back in. More money had to be put in the hands of people so that they could improve their lives and buy more goods and services. Financial institutions and corporations had to be straightened out in order to foster efficiency and restore confidence in them. Monopolistic practices and favoritism had to be done away with, because the margin for the inefficiency and waste that they had brought about had [to be] considerably reduced. The business of lending and borrowing had to be made transparent and aboveboard. The international investing community had to be persuaded that Southeast Asia remained a good place in which to invest.

Meanwhile, people, particularly the poor, had to be cushioned from the impact of the crisis. They had to have food, medical care and housing. They had to be put back to work as soon as possible. Some of their income had to be maintained. For the longer term, they had to acquire the skills and the infrastructure to prepare for the competitive rigors of a globalized economy, especially for the information-technology industry and other industries of the future. The environment had to be protected if recovery and growth were to endure.

ASEAN knew that bigger, rather than smaller, markets would make production and trade more efficient and thus attract investments better. Not even the market of Singapore or of Indonesia would be enough for many investors. The ASEAN market of close to half a billion customers would be much more attractive.

Accelerating AFTA

So, ASEAN did the logical and the rational thing, against the popularized expectation. ASEAN decided to move faster and deeper on the ASEAN Free Trade Area. Upon the leaders' mandate, the ASEAN Economic Ministers have agreed to move as fast as possible in placing as many of their countries' products as possible under AFTA coverage. They have also agreed that, for the older ASEAN members, AFTA products would have tariffs of no more than 0–5 per cent by 2002. For at least 90 per cent of tariff lines, tariffs would be brought down to 0–5 per cent by 2000. Although there is a time lag for the newer members, the schedule has been accelerated for them, too.

This means that, for the six older ASEAN members, AFTA will be substantially completed in less than nine months. So much for the prediction of AFTA's death.

ASEAN is moving, too, on bringing down barriers to trade in services. Already, ASEAN members have made commitments to one another on seven services sectors — air transport, business services, construction, financial services, maritime transport, telecommunications and tourism. Trade in services is a bit more complicated than trade in goods, but ASEAN has decided to open all services sectors and all modes of supply to future negotiations. Such negotiations are expected to open soon, as directed by ASEAN's leaders, and completed by 2001.

ASEAN is also integrating itself as a single investment destination. Last October, the ASEAN Economic Ministers established the ASEAN Investment Area. Under this scheme, ASEAN countries are to open up their manufacturing sectors to ASEAN investors, each country treating their investments as if they were those of its own nationals. Any exceptions to this are to be phased out according to a short and definite schedule.

ASEAN is only too aware that investments among ASEAN members are far from enough. Investments from the richer countries have to be drawn in fast, so as to reverse the capital flight that has been one of the major effects and causes of the crisis. ASEAN has thus decided to promote investments into ASEAN jointly. At their summit in Hanoi last December, ASEAN's leaders agreed upon a set of what they called "bold measures" to draw investments into ASEAN.

The Return of Investments

The leaders not only directed that AFTA be accelerated in order to create the larger market attractive to investors. The leaders also offered further inducements to investors who submit applications this year or next. Such investors will 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.

ASEAN members know that for their economies to recover they have to bring back investments — to stimulate economic activity, create jobs and raise people's living standards to what they were before the crisis. And to bring back investments, they have to act as one. They were seen as one when investors fled or stayed away; they have to be seen as one for investors to return.

This is one lesson that the crisis has taught Southeast Asia — graphically, painfully. Countries can no longer afford to act in isolation. Increasingly, the age of globalization has brought with it the era of regionalism. Nations that are of less than continental dimension, countries that are less than the United States, China, India or Russia in size, have to coalesce in regions if they are to thrive in a globalized economy, if they are to survive in it.

This is certainly true in the world of finance. The financial crisis that started in East Asia, in ASEAN, caught almost everyone by surprise, including most of the world's most brilliant economists. And it quickly spread. Because of inadequate consultation among ASEAN members, no ASEAN country was sufficiently aware of the problems building up in others or of the imminent impact of those problems on themselves. There was no institutionalized mechanism for ASEAN members to compare notes on developments in their economies, particularly in their financial sectors, but in the real economy as well. There was no formal forum for the finance ministers to consult on what to do about impending or fundamental problems that they may see.

Surveillance and Peer Review

Now, since the onset of the crisis, ASEAN's finance ministers, central bank governors and their deputies have greatly intensified their consultations. One of the mechanisms and bases for such consultations is the ASEAN surveillance process that the ministers established last year. Through this process, the finance ministries and central bank governors look over the developments in each of their economies and in the region as a whole. They exchange information on the policies that they have adopted and are carrying out and subject these to peer review. In this way, they expect to deal with problems before they erupt into crises and before they spread.

The surveillance mechanism is managed at the ASEAN Secretariat, with temporary funding and technical support from the Asian Development Bank. The surveillance process entails the collection of macroeconomic data and other economic and social indicators. It involves the collective analysis and reporting of such data by the ASEAN governments. It also includes the training of officials in the conduct of this process.

The first report of the surveillance process was submitted by the so-called Select Committee of finance ministry and central bank deputies last month. The report carried a tone of cautious optimism, forecasting that growth in the region will resume later this year, but warning about potential developments elsewhere in the world that can obstruct growth.

More importantly, the report carried accounts of what each ASEAN country was doing to stimulate domestic demand, protect the poor, revitalize the financial and corporate sectors, improve transparency and corporate governance, and mobilize resources to finance growth. The finance ministers reviewed these policies and actions.

ASEAN realizes, of course, that much of the global financial turmoil arises from weaknesses elsewhere in the world and in the global financial system itself. The ASEAN finance ministers and their deputies have started close and frequent consultations with their counterparts from China, Japan and Korea, countries which are in ASEAN's immediate vicinity and share many of its problems. Some ASEAN ministers have been active in the financial forums of APEC, ASEM, the Manila Framework group, the Group of 22 that is reviewing the international financial architecture, and the Group of 15 developing countries.

Contributing to the Global Debate

As their common contribution to the global debate, and in the ASEAN interest, the finance ministers have been developing a common position on the issues arising from attempts to review the international financial system. They insist that any measures adopted to deal with the global financial turmoil must be flexible and take into account the particular situations, concerns and interests of all countries and not just of a few. The poor must be protected. Inasmuch as the private sector was involved in the problems giving rise to the crisis, the private sector must be involved in the solutions. Transparency requirements must apply to the private as well as to the public sector. Short-term capital flows must be closely monitored. From now on, the liberalization of the capital account must take into account the state of development of the domestic financial sector.

There is now open discussion of what has hitherto been unthinkable — an exchange-rate system or even a single currency. Studies have been officially mandated on these subjects.

The quickening pace of regional economic integration and financial consultations has accompanied ever-closer and wide-ranging ASEAN co-operation. Such co-operation has brought ASEAN ever more firmly together. It takes many forms — the ASEAN gas pipelines and road networks, intra-ASEAN transport arrangements, inter-connectivity in telecommunications, disease surveillance, joint action on the haze arising from land and forest fires, the fight against and prevention of drug abuse, the ASEAN University Network, and so on.

These developments in ASEAN co-operation and integration could have implications of enormous historic magnitude for our region, including political ones. I will not go into these implications now except to say that they will have a bearing on the potential for peace and conflict within ASEAN and on Southeast Asia's capacity to deal with its neighbours and the world beyond.

This is why ASEAN places such a high premium on Southeast Asian solidarity and why it resists so firmly any attempt by others to discriminate among its members whenever the association itself is involved.

To me, then, the most significant impact of the recent crisis on ASEAN is the spur that it has given to ASEAN co-operation, integration and solidarity. We have found in this crisis that the quickening of closer ASEAN co-operation, integration and solidarity is essential for Southeast Asia to survive and flourish in a world that, in many ways, is fast coming together.

To that extent, the economic crisis may yet prove, for ASEAN and its peoples, to be a blessing in disguise.

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