

ASEAN on the Road to Recovery

Introductory Address by H.E. Rodolfo C.
Severino, Secretary-General of the
Association of Southeast Asian Nations, at
the Seminar on The Economic Crisis: Roads
to Recovery sponsored by the Asian
Institute of Development Communication
and the Konrad Adenauer Foundation

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Your Excellency Dato' Mustapa Mohamed, Second Finance Minister of Malaysia,
The Honorable Dato' Haji Mazlan Nordin, Chairman of the Asian Institute of Development
Communication,
Mr. Wolfgang Moellers of the Konrad Adenauer Foundation,
Seminar participants, friends:

It gives me particular pleasure to participate in this seminar, no matter how briefly, and to congratulate AIDCOM and the Konrad Adenauer Foundation for organizing it.

I say this not merely as the usual courtesy. I say it with a special earnestness. Taken together, the subjects covered by the seminar address in a most comprehensive manner the prospects for growth of the economies of Southeast Asia. The seminar is thus most useful in its timeliness and scope.

In this seminar, we will talk about AFTA and the promotion of intra-regional trade. The re-affirmation and acceleration of regional economic integration are probably ASEAN's most important response to the global economic upheaval that has hit Southeast Asia particularly hard. Integration, rather than a slide back to fragmentation, is the way to go in making our economies more efficient, attracting investments into them, and stimulating economic activity.

Investment and currency issues, another topic for the seminar, are, of course, central to the problem, particularly to the prevention of similar crises in the future. The role of governments has been a hot topic for intense debate in international conclaves. Including this subject in the seminar will, I hope, contribute to this ongoing debate.

I am particularly gratified by the attention that we will be giving to statistics. As I told the ASEAN heads of statistical offices in their second meeting two months ago, "We can expect investor confidence

to return only on the basis of the transparency that is the call of the hour in the global economy. Reliable statistics are one measure of transparency, an important one. Business enterprises and financial institutions, having learned to be more careful in their investments, need, more than ever before, accurate and adequate data to make business and investment decisions.”

Finally, the role of the media is critical, and it is a central topic of our discussions. To an important extent, today’s economic crisis is a crisis of confidence, and confidence is essentially a matter of perception. Media reporting shapes much of that perception. Although the media have generally been diligent, inaccuracies and distortions have crept into their reporting and analysis of the situation, particularly in the form of quotations from so-called “observers” and “analysts”. So, the challenge of the crisis to the media is an appropriate focus for this seminar.

Cautious Hope

We are meeting on these crucial topics in an atmosphere of cautious hope for ASEAN. One conclusion that I draw from some tentative projections by authoritative analysts is that 1999 will mark the beginning of ASEAN’s economic recovery. Most informed observers that I have read or talked to share this estimate.

ASEAN’s economy, on the average, should, in 1999, resume growth, or contract only slightly, after an average contraction of –9.6 per cent in 1998. Among the larger ASEAN economies, Indonesia’s is projected to shrink by 4.2 per cent, but that would be much better than the –15.3 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 –7.5 per cent. The Philippine economy, after being almost flat last year, is projected to grow by anywhere from 2.5 to 3.2 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. Singapore’s performance is expected to remain more or less flat, but better than previously predicted. Remarkably, average growth for Laos, Myanmar and Vietnam should continue at six or seven per cent.

Similarly, projections for inflation this year are encouraging. Inflation in Indonesia is expected to go down from over 70 to 15–17 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 8.0–8.5 per cent, respectively. For Brunei Darussalam, Laos, Myanmar and Vietnam, the average inflation rate is expected to fall from 23 per cent last year to 14.5 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 expected to expand 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.

Critical Factors

Nevertheless, positive expectations for the region depend for their fulfilment on several factors, some within the control of the ASEAN countries themselves, others outside their control.

Much will depend on the growth of import demand in ASEAN's foreign markets, particularly in Japan but also in other G-7 countries and in Europe generally. The United States has to keep growing as a market. At the same time, rising protectionist tendencies in these markets have to be vigorously resisted.

Concrete ASEAN Measures

Sharply conscious of this, the leaders of ASEAN, at their summit meeting in Hanoi last December, took forthright, concrete measures to tackle the situation head-on. These regional actions, embodied mainly in the Hanoi Plan of Action, are in addition to the national reforms that the individual ASEAN countries have been undertaking.

First, the leaders agreed to strengthen the ASEAN surveillance process. As a direct, collective response to the crisis, ASEAN's finance ministers had agreed to set up a surveillance mechanism to keep an eye on the movement of capital and on shifts in economic indicators. This will serve as an early warning system to alert ASEAN ministers to impending trouble in the future. The mechanism is operated by the ASEAN Secretariat and the Asian Development Bank under the supervision of the finance ministers and officials.

ASEAN's leaders also agreed to develop ASEAN capital markets, adopt internationally accepted practices and standards, and improve corporate governance. They resolved to de-regulate and liberalize the financial services sector more rapidly, as part of the ongoing ASEAN work on liberalizing trade in services.

The leaders proclaimed a bold and wide-ranging set of incentives for investors applying to invest in ASEAN within 1999 and 2000. Those investors will be exempted from corporate income taxes for at least three years or enjoy a 30-per cent investment tax allowance. Imported capital goods required by the investment will be exempt from duties. Equity in investing companies can be 100-per cent owned by foreigners. Such companies can use or lease industrial land for at least 30 years. They can employ foreigners on liberal terms. On top of these, individual ASEAN members offer their own additional incentives to investors.

Three days ago, the ministerial-level ASEAN Investment Area Council met in Phuket and agreed on measures to invigorate investments in ASEAN. In another of those turning points in the history of ASEAN economic co-operation, the ministers agreed, in concert, to open up their manufacturing sector to foreign investments, from ASEAN in the first place, but also from outside ASEAN. While some exceptions are allowed in a few sensitive areas, these are to be phased out by 2003 for the six older ASEAN members and a bit later for the newer ones. Just as importantly, the ministers agreed that the process of opening up their economies to foreign investments was irreversible.

On With Economic Integration

In a way, ASEAN's most forceful response to the crisis has been the affirmation of its commitment to regional economic integration, particularly to the ASEAN Free Trade Area. Contrary to predictions by self-appointed prophets, ASEAN has repeated this commitment since the onset of the crisis. At their December summit in Hanoi, ASEAN's leaders not only re-iterated it in the strongest terms but, in fact, decreed AFTA's acceleration. For the original signatories, AFTA is now to be officially completed in 2002 instead of 2003; but, by the year 2000, most of the goods traded among ASEAN members will have tariffs of no more than five per cent. Agricultural products, unprocessed as well as processed, have been brought into AFTA coverage.

Two days ago, also in Phuket, ASEAN's economic ministers agreed to work out, very soon, a timetable for dropping tariffs to zero on most, if not all, products. They also agreed to act more vigorously in removing non-tariff barriers within ASEAN.

Beyond the removal of trade barriers, ASEAN's leaders and ministers have agreed on other measures to make trade easier among ASEAN members. These include harmonizing customs rules and procedures, adopting common tariff nomenclatures, adhering to standard valuation systems, negotiating mutual recognition arrangements, aligning product standards, and encouraging the use of ASEAN currencies in intra-ASEAN trade.

ASEAN economic integration means more than removing obstacles to trade. It also means binding economies closer together through infrastructure linkages, like road networks, railway networks, power grids, gas pipelines. ASEAN is pushing these linkages, at the highest level.

Why is ASEAN so committed to regional economic integration?

A Market of 450 Million

AFTA and freer trade in services create a market of 450 million people. They make production more efficient. They thus help to attract investments in ASEAN both from within and from outside.

At the same time, ASEAN knows that, in order to compete in today's globalized economy, its members have to co-operate to develop science and technology and enable their human resources to acquire the skills needed for the industries of today and tomorrow. ASEAN's leaders, at the Hanoi summit, placed high importance on science and technology and human resource development.

ASEAN members know, too, that economic recovery and growth can be sustained only if they protect the environment. And they realize that they have to work together and co-operate in order to do this effectively. The pollution of the atmosphere and of the sea does not respect national boundaries, as we have seen in the ravages wrought by the haze arising from land and forest fires in our region. Thus, the Hanoi Plan of Action devotes particular attention to ASEAN co-operation in safeguarding the environment, specifically including the fight against the menace of haze pollution.

Healthy business and economic activity takes place best in an atmosphere of security and stability. The Hanoi Plan of Action seeks to ensure that ASEAN continues to promote the peaceful settlement of disputes among its members, engage the major powers in dialogue and consultations on the security of the region, principally through the ASEAN Regional Forum, and keep the region free from nuclear weapons.

ASEAN Vision 2020

The Hanoi Plan of Action, together with the Hanoi Declaration and the Bold Measures issued at the last summit, is a landmark document that charts the course of ASEAN co-operation toward the attainment of the ASEAN leaders' Vision 2020.

In the words of the leaders' statement of December 1997, "That vision is of ASEAN as a concert of Southeast Asian nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies."

In order to attain that vision, they said, "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."

In moving ASEAN toward Vision 2020, the Hanoi Plan of Action, and the statement on bold measures that accompanies it, lay down specific steps for the early recovery of ASEAN's economies. That recovery proceeds on fairly solid ground — the physical infrastructure built during the years of rapid growth,

hard-working, educated and highly trainable people, an entrepreneurial middle class, open economies, outward-looking economic policies — qualities that made possible two decades of development that were the marvel of the world.

As I said in the beginning, early signs of recovery are now apparent.

What ASEAN's members resolve to do now is to adjust and modernize their national economic, social and political institutions and practices to respond to the more rigorous demands of a global economy. And they are determined to strengthen further ASEAN solidarity, cohesion, co-operation and integration, which is essential for the countries of Southeast Asia to recover and flourish in the world of the twenty-first century.

I wish this seminar success in contributing to these urgent endeavours.

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