

ASEAN Today: New Opportunities for Business

Statement by H. E. Rodolfo C. Severino, Secretary-General of the Association of Southeast Asian Nations, at the ASEAN-Japan Business Roundtable

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ASEAN has always placed great value on the role of the private sector in economic growth — the role of ASEAN's own private sector and the role of private foreign investment in ASEAN. As a matter of development strategy, ASEAN governments and ASEAN itself have deliberately cultivated a climate in which private trade can flourish and private investment can make profit. The private sector has responded by driving ASEAN's phenomenal growth for two decades. The encouragement of private business activity remains central to ASEAN's approach to development. It is at the core of ASEAN's strategy for economic recovery and sustained growth.

Indeed, ASEAN was formed on the premise of a strong private-sector role in economic development and in its relations with the rest of the world. Even those countries that have come into ASEAN with centrally planned economies have done so in the midst of opening up their economies to market forces, to the private sector and to foreign investment. Today, they are fully committed to the basic ASEAN policy of harnessing the economy to the energy of private enterprise. It is in this light that we value every opportunity that we can get for consultations between governments and private business.

ASEAN conducts our dialogue today on increasingly solid ground. Last March, ASEAN's finance ministers projected growth rates for the region to average somewhere between 4.5 and 5 per cent. The international financial institutions — the IMF, the World Bank and the Asian Development Bank — have had periodically to revise upward their growth estimates for ASEAN. The exports of the six older members of ASEAN alone — Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand — have been surging — by 7.7 per cent from US\$316.6 billion in 1998 to US\$341.1 billion in 1999. Imports grew at the same rate, from US\$259.5 billion in 1998 to US\$279.5 billion in 1999.

The surge in imports reflects a rise not only in production requirements for export but also in domestic demand, including for housing, commercial property and automotive products. According to the ASEAN Federation of Automotive Industries, automobile sales in Indonesia, Malaysia, the Philippines and Thailand rose 67 per cent, from 273,000 units in the first half of 1999 to 456,000 units in the first half of 2000. In Indonesia, car sales jumped 455 per cent during that period, from about 24,000 to about

127,000 units. The automotive industry estimates that the demand for automobiles in the six major ASEAN markets — Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam — will hit 1.4 million units in 2003 and 1.6 million units in 2004, considerably surpassing the levels before the financial crisis.

Investment Flows into ASEAN

Foreign direct investment flows into ASEAN were at the healthy level of US\$16.9 billion in 1999, with investments from the United States soaring more than seven times from 1998 to 1999, mostly in the form of reinvestments and cross-border mergers and acquisitions. However, for various reasons, total FDI in ASEAN dropped by 14 per cent from 1998 to 1999. We see better prospects for 2001 and thereafter, as the ASEAN economies recover and further integrate — and are seen by investors to recover and further integrate — as opportunities for mergers and acquisitions grow, and as investment flows are stimulated by the continued strength of the U. S. economy, the growth of the Japanese and Korean economies, and the maintenance of Taiwanese attention to Southeast Asia.

An important point to remember is that most large ventures already established in ASEAN did not leave the region even at the height of the crisis; in fact, many of them expanded their facilities, taking advantage of lower asset values and weaker national currencies.

In the midst of the resumption of economic growth, inflation has been kept under control. Interest rates are down. Financial reserves are up, although some currencies have weakened. Reforms in the financial and corporate sectors continue, although with ups and downs. ASEAN's finance ministers, among themselves and together with those of China, Japan and the Republic of Korea, are strengthening the monitoring of economic developments and policy measures in the region. They are setting up a mechanism for providing resources to countries in the region that may find themselves in balance-of-payments difficulties.

ASEAN economic integration has, as you know, been accelerated. The ASEAN Free Trade Area will be completed, for the six original signatories to the AFTA treaty, by the beginning of 2002. This means that, in just a little over a year from now, most of the goods traded within ASEAN will have tariffs of no more than 5 per cent or none at all. Even today, 85 per cent of tariff lines in the AFTA scheme already are in that minimal-tariff zone, representing more than 90 per cent of goods traded among ASEAN countries. No one can ask more of a regional association. By next year, average tariffs on goods traded under the AFTA scheme will be down to less than 4 per cent from 4.43 per cent today. All electrical and electronic goods are in the AFTA inclusion lists of the six original signatories to the agreement. Average duties on them are already in the minimal range. The first six signatories to the AFTA treaty aim to abolish all import duties on trade among them by 2010. Non-tariff barriers are also being dismantled.

In the meantime, the ASEAN Industrial Co-operation scheme, or AICO, gives immediate full AFTA treatment to products traded within ASEAN by companies operating in two or more ASEAN countries. As you may know, most of the companies taking advantage of the AICO scheme are Japanese. Most of these Japanese concerns are automotive companies. A few of them are electrical and electronics firms.

A Rules-Based System

Earlier this month, the ASEAN economic ministers adopted, for signing next month, a set of rules for dealing with products that a certain AFTA party may find difficulty in moving to the AFTA scheme. The rules are based on international norms and practice. They would not only provide objectivity and transparency in dealing with such cases; they would also impose stringent conditions for resorting to them. So far, only Malaysia has indicated any definitive intention of resorting to this mechanism — only

for completely built-up and completely knocked-down cars and only for a short delay.

The ASEAN market for services is also being integrated, with several sectors at various stages of negotiation. ASEAN is creating an ASEAN Investment Area, in which each ASEAN country opens up and gives national treatment to other ASEAN investors, including joint ventures between ASEAN and foreign companies.

ASEAN is also being bound together and its economy further integrated by physical infrastructure projects — the road and highway network, the seaport and airport network, the ASEAN power grid, and the gas pipeline network. ASEAN is working on the interconnectivity of telecommunications and the standardization of telecommunications equipment. These projects both present enormous opportunities for investment and would stimulate other forms of investment and economic activity.

In any event, all ASEAN countries are committed to the integration of their economies as a principal way of strengthening their competitiveness in a globalized economy, where competition for investments as well as markets is becoming more and more intense.

At the same time, ASEAN is determined to build up its competitiveness in the industries of the future, in the knowledge industries, in enterprises involving information and communications technology. Part of this effort is the adoption this month of an e-ASEAN framework agreement for signature by ASEAN's leaders next month. The programme includes the legal and policy environment for the development and use of information and communications technology for e-commerce, for government, and for human and social development. It involves the free movement of ICT goods and services and the training of ASEAN's people in this field. The Japanese Government has given clear indications of its desire and readiness to be deeply involved in ASEAN's endeavours in this area. ASEAN seeks and welcomes this Japanese collaboration.

In sum, the steady and accelerated integration of the ASEAN economy, the resumption of its growth, the development of the regional infrastructure, and ASEAN's commitment to the industries of the future provide new and fertile ground for ASEAN and Japan to further deepen their already strong links. Those links go back many decades. They are deep and wide-ranging. New opportunities are now opening up for making those ties deeper and stronger than ever before. I am confident that our roundtable today will contribute substantially to this for the benefit of all.

SOURCE: ASEAN Secretariat <<http://www.aseansec.org>>