

ASEAN and India: A Growing Convergence

Address by H. E. Rodolfo C. Severino, Secretary-General of the Association of Southeast Asian Nations, at the Partnership Summit 2001

Hyderabad, 11 January 2001

The first thing that we ought to note is that, after the financial crisis of 1997–98, the ASEAN economy is well on the road to recovery, growing by 4.6 per cent in 1999 as against the contraction of –4.4 per cent in 1998. Average GDP is, of course, a rather crude indicator, but an indicator nevertheless. There are others, which I will not cite now. All I would like to add — and this is closely related to the economic recovery — is that most ASEAN countries are today in some form of transition. The transition takes different forms and proceeds at different paces; but all are in the direction of more professional, more institutional, more transparent governance, both public and corporate, and greater openness to the region and to the rest of the world. Transitions being what they are, there are bumps along the road, and naturally there is a degree of uncertainty — economic and political — about the prospects for growth, stability, and so on. But the direction of the national responses is clear.

As a group, the principal ASEAN response not only to the imperative of economic recovery but also to the challenge of global competition is to hasten and deepen the integration of the region. At their summit last November in Singapore, the ASEAN's leaders made crystal-clear the priority that they give to regional integration. ASEAN is sharply aware that integrating the region is essential for strengthening their economies and making them more efficient, for attracting investments, even for promoting regional security and stability. It is the only way for Southeast Asia to compete effectively in a globalized economy, to compete for markets and investments against continent-sized countries like India and China and free trade areas elsewhere in the world.

For ASEAN, regional integration means three things — the integration of the market, physical integration through infrastructure, and the integration of the newer ASEAN members into the ASEAN mainstream.

Market integration is ASEAN's principal regional response to the challenge of fiercer and more open global competition. The cornerstone of ASEAN market integration is the ASEAN Free trade Area. The AFTA process was accelerated, for the second time, in 1998, and it is well on track. Today, close to 85

per cent of all products traded in ASEAN is included in the AFTA process. For the first six ASEAN members, which are the region's leading trading nations, 98 per cent of traded products are in the Inclusion List. And 85 per cent of those products are already in the AFTA target zone of 0-to-5 per cent tariffs. The average tariff rate on products in the Inclusion List is now down to 4.29 per cent from 12.8 per cent in 1993, when the AFTA process began. By the beginning of 2002, in less than one year from now, no tariffs on products in the Inclusion Lists of the original six signatories to the AFTA agreement will be more than five per cent. The newer members are given a little more time.

ASEAN's commitment to AFTA is firm. AFTA, however, is not unrealistically inflexible. A protocol concluded last November allows for delays in the inclusion of a product in the AFTA process for a country having difficulty with respect to that product. But the protocol ensures that any such delay is done according to clear rules, subject to stringent conditions, including negotiations with other members, and granted only to a member in real difficulty. ASEAN has started negotiations on the more difficult subject of liberalizing trade in services. It has agreed to create the ASEAN Investment Area, which throws each ASEAN economy open to investors from other ASEAN members, including joint ventures with non-ASEAN partners. The opening of the area to all other investors will be carried out according to fixed schedules. ASEAN is pushing other forms of economic co-operation, including linkages among small and medium enterprises. The finance ministers have set up a system for the monitoring of economic trends in the region, surveillance for signs of trouble, periodic peer reviews, and mutual encouragement of reform measures. The ASEAN central banks have agreed to enlarge the ASEAN Swap Arrangement, under which ASEAN members are to provide financial resources to one that may find itself in difficulty.

Integration by Infrastructure

ASEAN is also being physically integrated by regional infrastructure projects — land transport facilities and arrangements, power grids, a gas pipeline network, telecommunications interconnectivity.

A feasibility study has been completed for upgrading mainland Southeast Asia's railways, filling the gaps to complete the network, and linking it to Kunming in southern China. ASEAN is planning the consolidated expansion of the already extensive road network on mainland Southeast Asia, a program covering 33,480 kilometres of roads. It is working out the protocols for the implementation of the agreement to facilitate the treatment of goods in transit. Agreements on multi-modal transport and interstate transport are in the works.

Work is being done on master plans for the ASEAN Power Grid and a network of gas pipelines throughout the region. These schemes should provide a ready market for ASEAN energy producers and help strengthen the energy security of the importers. The projects have attracted the attention of major energy companies. The interconnectivity of telecommunications facilities and the standardization of telecommunications equipment are being dealt with.

These infrastructure programmes not only strengthen the investment climate in the region but also present enormous opportunities for investment. Indian companies are, of course, most welcome to participate in them.

Integrating the Newer Members

An essential component of ASEAN integration is ensuring that its four newer members — Cambodia, Laos, Myanmar and Vietnam — fully participate in and benefit from ASEAN activities. For this purpose, ASEAN is devoting attention to the development of the Mekong Basin, in which all the new members are located, the advancement of human resources, which ASEAN regards as the key to development, and the promotion of information technology. Over the past four and a half decades, numerous programmes have been undertaken for the development of the Mekong Basin, with varying degrees of success.

ASEAN, together with its partners in Northeast Asia and the Asian Development Bank, is seeking to give some coherence to these programmes from the standpoint of regional integration. The Singapore-Kunming rail link is part of this. So is the envisioned highway network. And so is China's proposal to help in extending the navigability of the Mekong River. Special programmes are being undertaken, bilaterally between individual ASEAN countries or in co-operation with Dialogue Partners, particularly China, Japan, Korea and Australia, in the development of the human resources of the newer members in a broad range of quite specific areas, most of them designed to help the newer members integrate their economies with the rest of ASEAN. Similarly, special programmes for the development and use of IT in the newer members are being worked out, again bilaterally or with the support of Dialogue Partners, out of the conviction that IT can help to telescope in some ways the process of development.

IT, as well as HRD, is, of course, an ASEAN-wide undertaking. ASEAN fully recognizes the vital role that IT is performing in the conduct of business, the operation of industry, and, in general, the improvement of people's lives — in ways that are clearly evident today and in other ways in the future that we can now only dimly discern. In response, ASEAN has organized a high-level task force of public and private-sector representatives that is now churning out concrete and practical recommendations for the accelerated development and use of IT in ASEAN. To provide the political framework for this endeavour, ASEAN's leaders last November signed the e-ASEAN agreement. The agreement covers the legal and policy environment for the development and use of IT, questions pertaining to e-commerce, the ASEAN Information Infrastructure, the liberalization of trade in IT goods and services, the standardization of IT products, the training of ASEAN's people for the information age, the use of IT for government services and communications, and the harnessing of IT for health care, education, rural development, and other social purposes.

From the State Government's paper "AP First: Information Technology Policy — 2000," I have learned that Andhra Pradesh has a similar vision for its economy and its people, articulated in the State's blueprint called Vision 2020. IT is thus a natural area for ASEAN-India collaboration. In the India-ASEAN Eminent Persons Lecture that I gave in New Delhi two days ago, I suggested that ASEAN and India work together in evaluating their state of readiness for the digital age, identifying areas for common action, an effort that could include an index of readiness and an annual progress report. I also proposed that ASEAN and India co-operate in training people, undertake consultations on the use of IT for education, health care, employment, small and medium enterprises and rural development, and set up channels for the regular exchange of experience and information on IT developments. Because of the priority that it has assigned to IT, Andhra Pradesh could take the lead in this on the Indian side.

Openness to the World

Even as it steadily integrates as a region, ASEAN remains open to the rest of the world, creatively developing ties with other countries and regions. The ASEAN-Plus-Three forum with China, Japan and Korea has progressed well beyond expectations. The most rapid progress has been achieved in financial co-operation, which covers joint monitoring of the regional economy and training and research. The thirteen East Asian countries are setting up a network of bilateral swap and repurchase agreements to help one another in case of financial difficulty. They have also agreed to cooperate in trade, investments and technology transfer, in IT and e-commerce, in developing small and medium enterprises and supporting industries, and in human resource development. As I mentioned earlier, ASEAN-Plus-Three is directing a large portion of this co-operation to the development of the Mekong Basin. An East Asia Vision Group is nearing the end of its work on how to hasten and deepen the ASEAN-Plus-Three process further.

ASEAN and Japan are now looking into the implementation of the recommendations made by a joint public-private consultative body for the deepening of economic and other relations between them. ASEAN and China have agreed to set up an expert group to propose ways of tightening their trade and

other economic ties. ASEAN and South Korea are consulting on measures to strengthen their co-operation across the board.

A high-level joint task force has submitted a wide-ranging set of bold and concrete recommendations for the deepening of the linkage between the ASEAN Free Trade Area and the Closer Economic Relations of Australia and New Zealand. Ministers have agreed to work on a “closer economic partnership” between the two sides, and officials are now looking into measures for achieving this. The United States remains a leading trading and investment partner of ASEAN. ASEAN-European Union relations have just been reinvigorated.

As a full ASEAN Dialogue Partner, India certainly has a place in ASEAN’s network of external relationships. Right now, a joint study is being done on how to establish linkages between India and the ASEAN Free Trade Area. One of the ways that I can envision is the extension to India of the trade facilitation measures that are being adopted in ASEAN. These include customs co-ordination, product harmonization, and mutual recognition arrangements. We could look at reducing non-tariff barriers between the two sides.

ASEAN-India trade has been growing rather rapidly, particularly since the early 1990s, but it still constitutes less than 2 per cent of ASEAN’s total trade. Part of the problem is the knowledge gap between the business communities of the two sides and the lag in the appreciation of each business community of economic developments on the other side. We have to devise ways to make sure that the business communities have up-to-date information about market conditions in each other’s country or region. Contacts between them have to be assiduously promoted. The Confederation of Indian Industry is an obvious focal point for this effort on the Indian side.

A Trend of Convergence

Economic ties between India and Southeast Asia are, for reasons of history, orientation and policy, today still rather thin. Fortunately, there seems to be a trend of convergence between the economic orientations and policies of India and Southeast Asia, as there is within ASEAN itself, and, therefore, of their future destinies.

That trend is toward giving rein to the market as the principal force for economic growth and allowing private enterprise to serve as the engine of that growth. The trend is toward liberalization, privatization and de-regulation. It is toward the prevalence of the rule of law and toward greater openness and transparency in public and corporate transactions.

At the same time, ASEAN and India have found a common interest in ensuring that freer global trade and globalization itself do not remain tilted toward the developed countries, toward those who start the game of global competition already far ahead in terms of resources, technology and power. Both would want to see the better management of international short-term capital flows in order to reduce their volatility.

There also seems to be a trend toward a common recognition that states and corporations have to ensure that their people are adequately educated and trained and physically fit for the rigors of global competition in the information age, having an inherent right, in any case, to education and health care.

As their outlooks converge, there seems to be enough common ground between ASEAN and India for them to forge ahead in cultivating the environment for expanding and deepening the trade, investments and capital flows between them. I am confident that governments and business communities of your country and our region will find such an expansion and deepening, as well as the convergence itself, to be of benefit to themselves and to their people.

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