

# Joint IPS-ISEAS ASEAN Roundtable ASEAN Economic Co-operation in the 1990s 27-28 June 1991

## RESUME OF MAJOR THEMES OF DISCUSSION

ASEAN has taken to heart Franklin Delano Roosevelt's motto that "politics is the art of the possible". During the first twenty-three years of its existence, it has rightly focused its energies on security. In this area, ASEAN has scored a spectacular success in that it has been able to harmonise the foreign policies of the six countries *vis-à-vis* Cambodia and to mobilize the international community to support our position. If not for ASEAN's stand the world would have forgotten Cambodia a long time ago. However, Cambodia is either about to be resolved or marginalized, and the Cold War has ended. ASEAN therefore stands on the threshold of a new era.

One of the participants said that ASEAN must find a new mission, a new *raison d'être* in the world. The question is: what should that mission be?

There appears to be agreement that that mission should be to accelerate the pace and to expand the scope of intra-ASEAN economic co-operation and integration.

Is this desirable? It would appear that the answer from everyone has been "yes" — because it will contribute to the achievement of the national objectives of each of the six ASEAN countries.

Is it feasible? Some said "maybe"; others are more confident and said "yes". Those who have said "yes" point to certain important developments which have taken place within ASEAN. Most of the ASEAN economies have taken off. There has been a narrowing of the gap between the more developed and the less developed economies. There has been an important restructuring of most of the ASEAN economies from exporters of raw materials, primary commodities, agricultural products, to exporters of manufactures. There has been a liberalization trend, the adoption of an export-led strategy. There have been increasing economic linkages among the six ASEAN economies, as well as between the six and their neighbours in East and Southeast Asia. For all these reasons the answer seems to be that it is both desirable and feasible for ASEAN to rise to the challenge of intensifying intra-ASEAN economic co-operation and integration.

The next question is: what should ASEAN aim for? One idea which seems to commend itself to many is the idea of a free trade area agreement, but a free trade area agreement which will be accompanied by the simultaneous reduction of external barriers. The economic conditions in ASEAN are ripe. The political will is present. Public opinion favours the reduction of tariffs and the removal of barriers which impede factor mobility. So it would seem that the moment is auspicious.

If an agreement could be reached on such a goal, the next question is: how is this goal to be implemented? One idea is that ASEAN must conclude a modest framework, but with a legally-binding agreement setting a free trade area as the goal that ASEAN will work towards. Such a framework agreement can be implemented over a period of years and be supplemented later on by protocols as and when ASEAN is able to agree to expand the areas of its integration and co-operation from trade to other areas.

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There is a need for an annual meeting of ASEAN Heads of State and government, and for a well thought out, well designed, coherent structure of authority which is now absent. There is a need to upgrade the present Secretariat to something more. There is also a need, not for a court — because that will not be acceptable in ASEAN at this point — but for compulsory and binding arbitration of disputes. And, finally, ASEAN needs in this area to take a slightly different approach from the European Community. ASEAN needs to be less ambitious. A federalist approach across the board may not commend itself. ASEAN should take a more confederalist approach and a less legalistic approach.

### **The role of the private sector**

Although the paper presented focused on the role of the transnational corporations (TNCs) or multinational corporations, ASEAN should not forget also the fact that in the next two decades it will see the rise of a great number of ASEAN multinational corporations. ASEAN must therefore look at both the role of foreign-based TNCs and ASEAN multinationals.

Transnational corporations are economic forces that respect no national boundaries. They look for opportunities to maximise their profits wherever they may be. There are in the world economy three processes that occur at the same time: the process of inter-industry specialization, the process of intra-industry specialization, and the process of intra-company specialization, and these are all taking place in the Asia-Pacific region. Investments by foreign-based TNCs and ASEAN multinationals are creating economic linkages among the ASEAN economies, and between ASEAN, the NIEs, and Japan.

Why do companies choose to locate different parts of their manufacturing processes in the different ASEAN economies? Several reasons were suggested although no definitive answer was given. Some suggested that they do so in order to take advantage of the different comparative advantages that the ASEAN economies offer. They do so in order to spread the country risks. They do so in order to occupy a market niche in some of these countries which will, in time, become important consumer markets.

### **The role of government**

Another question raised was: what is the role of government? The role of government is to maintain political stability — and this is the most important of all roles — to build an infrastructure and environment friendly to business, to upgrade the training of human skills, and to reduce incrementally the barriers that impede factor mobility between the ASEAN economies.

### **The Growth Triangle**

Next, the discussion moved on to what Singaporeans call the “Growth Triangle”. Professor B.J. Habibie calls this SIJORI, which perhaps is a better term. There is a universal trend for economic growth to spread across national frontiers into contiguous areas. Looking at Asia, we can see this phenomenon at work with Hong Kong investments going across the border into Shenzhen and then into Guangdong province, Taiwanese investments flowing across the Straits of Formosa into Fujien province, and, more recently, South Korean investments flowing across the Yellow Sea to Shangdong Province. The spread of economic growth from Singapore into the contiguous territories of Johor and Riau is therefore not unique but part of this universal phenomenon.

However, for such an economic zone to succeed both the economic logic and the political will are needed. Not only must the complementarity be present but also the political will.

What is the role of government in the evolution of such transnational economic zones? The role of government is to facilitate and manage this spread, to assist the private sector to maximize the opportunities, and to reduce the political, social, equity and federal-versus-state problems which are sometimes encountered.