

**Keynote Address by
Mr Goh Chok Tong
Prime Minister of Singapore
at the
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The ASEAN Economic Ministers' Meeting turns 25 this year. It is timely to examine how ASEAN should respond to the profound changes taking place on the international scene. It is also appropriate to review the progress of the ASEAN Free Trade Area (AFTA), as it was here at the Summit in January 1992 that the ASEAN heads of government signed the Framework Agreement on Enhancing ASEAN Economic Co-operation.

Changing Environment

2. During the Cold War, the Western world had an interest in preserving the stability of non-communist countries everywhere. They gave developing countries privileged access to their markets through the Generalized System of Preferences (GSP). Through successive GATT Rounds, they liberalized international trade in an orderly way, lowering tariffs and instituting rules of conduct for international trading.
3. This liberal attitude and generally stable environment enabled individual ASEAN countries to focus on economic development and nation-building according to their own priorities. All adopted various forms of market economies, although with large variations in the practices. Between 1970 and 1985, ASEAN countries enjoyed average growth rates of 6 per cent per year — far better than the 3 per cent experienced by the developed countries. ASEAN countries also played an active role in the international economy. Their exports increased by 17 per cent per year, faster than world trade.
4. In such a benign environment, initially ASEAN members were more pre-occupied with their own respective nation-building. They felt no compelling pressure to promote regional economic integration. Intra-ASEAN economic co-operation progressed gradually, the more so as the process was not market-driven but administratively-dictated.
5. In the mid-1980s, the ideological divide in the world began to weaken. Centrally controlled economies began increasingly to promote market reforms. This wave became a tide when the communist states

collapsed, and the Cold War ended abruptly. Suddenly, everyone was a capitalist, admittedly with varying degrees of fervour.

6. ASEAN's own wave of economic liberalization started before the collapse of communism. The impulse was changes in our own economic circumstances. The collapse of oil and commodity prices in the mid-1980s forced countries which had hitherto depended comfortably on exporting primary products to introduce austerity measures and diversify their economies. ASEAN countries saw the need to integrate themselves more closely with international trade and capital flows. They changed policies to attract foreign investments, reduced tariff and non-tariff barriers, and privatized state-owned enterprises.

7. The timing was favourable. Japan, South Korea and Taiwan all faced rising currencies and costs, and were looking for alternative production bases. The result was a dramatic increase in foreign investments into ASEAN and strong, sustained economic growth. This gave ASEAN countries confidence to participate even more in the world economy.

8. Ironically, just as ASEAN and other developing countries are liberalizing their economies, the developed countries are backing away from free market policies. Now that the Cold War is over, Western countries have less incentive to provide security cover for Asia, or to keep their markets open to buttress non-communist states. The threat of protectionism in the developed countries has grown more imminent.

9. At the daily business level, exporters are harassed by anti-dumping and countervailing duty actions initiated by competitors in developed countries. They come under pressure to conclude market-sharing arrangements, euphemistically termed "voluntary" but really extracted by the threat of worse things to come.

10. At the policy and intellectual level, the mood in the developed countries is shifting away from free trade, in favour of "fair trade" and "managed trade". These terms "fair trade" and "managed trade" evade the odium of protectionism and convey an aura of intellectual respectability, but should be seen for what they really are. The Western economies are struggling to revive growth and cut unemployment. Their difficulties in doing so have led to [the] growing perception among hard-pressed workers, union leaders, politicians and opinion makers in the West that Asian competition is "unfair". It is "unfair" because Asian workers are willing to work longer hours, and accept lower pay, poorer social conditions and looser environmental standards in exchange for the chance to improve their lives. But as a World Bank report concluded, people in these economies have simply studied harder, worked harder and saved more than people in other countries.

11. Some in the West, especially in Europe, fear that Japan's success will be followed by a flood of NIEs and aspiring NIEs, which will include China, and later India and Vietnam. These countries will compete directly with industries which had been the preserve of the developed countries, and force upon the developed countries unwelcome changes in economic structure and standards of living.

ASEAN's Response

12. ASEAN has to respond promptly to these changes in the international environment if it is to prosper in the next 25 years. Retaliating with a protectionist trading bloc of our own is not a solution. It is against ASEAN's own interests, as our links to the rest of the world are as important if not more important than our linkages with each other. Fifty-seven per cent of ASEAN's exports go directly to the industrial countries, while much of the rest depends indirectly on the major economic locomotives. Without the markets in the developed countries, a significant part of our economies will atrophy.

13. Furthermore, ASEAN is still a small player in the world economy. Our market is only one-twentieth the size of NAFTA or the EC. Even within Asia, ASEAN is small compared to the economic might of Japan or the potential weight of China and India.

14. The rapid development and liberalization of China and India have major implications for ASEAN.

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- (a) In 1993, China attracted a record US\$58 billion of foreign investment commitments, while investments in many ASEAN countries declined sharply. China's investments exceeded the figure for all of ASEAN combined. Foreign companies persist in doing business in China despite difficulties because they hope to make it big one day, and induce 1.1 billion consumers to drink its [sic] soft drinks, buy its [sic] washing machines or own its [sic] cars.
- (b) India has a middle class of between 100 to 300 million people. They are hungry for imported consumer goods. They also have the talent and enterprise to make India a major economic power, provided the dead weight of red tape and regulation is removed.
15. ASEAN's response to this bracing environment should be to quicken the pace of liberalization, commit itself to the free trade system, play by fair and transparent rules, integrate the members' economies, and lock-in the interest of the developed countries into our regional economy. Where we are competitive, we should export to world markets. Where others are more competitive, we should open our doors to them, giving them a vested interest in our economic well-being and encouraging our own industries to upgrade and become competitive. If we do not, we cannot criticize others for shutting out our competitive exports.
16. Individual ASEAN countries have already liberalized their economies considerably, and enjoyed the results. They should continue to do so. But besides individual efforts, ASEAN should leverage its strengths as a group to derive economic benefits for all its members, just as it has done in the political and diplomatic fronts. This was why the ASEAN Summit in January 1992 took the bold decision to create AFTA.
17. AFTA's announcement initially created considerable optimism. Businessmen were hopeful that ASEAN had decisively changed its previous cautious approach to economic co-operation, and would now make substantial progress. Investors waited eagerly to learn the details of AFTA and the CEPT, in order to plan their ASEAN-wide projects.
18. However, we have not followed up the announcement of the agreement with bold moves to implement AFTA. Perceptions that ASEAN is taking longer than expected to work out the details of the schemes, and that the gains are likely to be incremental rather than dramatic, have not helped. As a result, some of the early interest has flagged.
19. One often-heard explanation [of] why ASEAN economic co-operation is slow is that most ASEAN countries are at similar stages of development, leaving little scope for intra-ASEAN trade. This is only partly true. Take for example the six founding members of the EC. Their economies too were similar to one another. In 1960, even before they fully implemented a common external tariff, one-third of their total trade was among themselves. Today, among the EC 12, two-thirds of trade is among themselves. So the question is less the stage of development, but more how prepared the partners are to promote economic interdependence, division of labour, and trade among themselves.
20. ASEAN members do have genuine concerns and difficulties in implementing AFTA. More open markets mean problems of adjustment and re-structuring, especially in the small business and agricultural sectors. These are accustomed to a more regulated environment, and have not just economic but also social significance. But ASEAN's impressive economic development over the last decade, and the phenomenal growth of ASEAN's exports, show how resilient and adaptable our economies and industries really are, when confronted with competition and given the opportunity to modernize and upgrade themselves.
21. Singapore supports ASEAN economic co-operation, but it has not actively pushed for faster progress. We pursue a free trade policy, and do not want to be misunderstood as aiming for a one-sided benefit out of the liberalization of markets in other ASEAN countries. Our policy continues to be to let

other members set the pace of economic co-operation. However, after each ASEAN government has made its own political judgement as to how quickly it can proceed, ASEAN must collectively decide how fast to move.

22. Businessmen can work with either a faster or slower pace of economic integration. But unfulfilled expectations of quick progress will produce disillusionment, while uncertainty as to what will really happen will make it harder for them to embark on long term projects.

23. Both are against ASEAN's interests. I am glad to note that at the AFTA Council meeting yesterday, the Council decided and announced the pace at which the CEPT Scheme will be implemented. Businessmen and investors now know and can plan accordingly.

24. The potential for ASEAN economic co-operation is good. Besides AFTA, the Singapore Summit also endorsed the promotion of sub-regional economic co-operation, among several ASEAN members at a time. This appears to be succeeding. The first example was the Southern Growth Triangle. By weaving together the advantages of Singapore, the Riau Province in Indonesia and the Malaysian state of Johor, we have created an economic area that is attractive to foreign investors, and substantially increased trade among the three partners.

25. The Southern Growth Triangle has inspired other sub-regional co-operation schemes.

(a) The Northern Growth Triangle involving Sumatra, the northern states of Malaysia, and the southern states of Thailand, is actively exploring opportunities for co-operation. Projects which have been identified range from agri-business to tourism.

(b) Recently, President Ramos of the Philippines suggested an Eastern Growth Triangle covering East Malaysia, Mindanao, and Sulawesi.

26. I am hopeful that taken as a whole, these efforts will draw our economies closer together, and demonstrate what ASEAN can achieve as a group when its members look at the longer term opportunities instead of the short-term costs.

Conclusion

27. It is a quarter century since ASEAN members began to discuss economic co-operation among ourselves. On this significant occasion, let us renew our resolve to promote economic co-operation, and give substance to the AFTA ideal. Clear and bold political leadership, supported by a nimble and forward-looking bureaucracy, will make a critical difference to ASEAN's economic prospects, and enable us to turn the challenges of the coming decades into fresh opportunities to improve the lives of our peoples.

SOURCE: Singapore Ministry for Foreign Affairs — ASEAN.