

ASEAN's problems on display at Bali summit

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The ninth summit meeting of the leaders of the 10-member Association of South East Asian Nations (ASEAN), held on the Indonesian island of Bali earlier this month, announced a series of economic and political steps to create a free trade zone by 2020.

Conducted just weeks after the collapse of the World Trade Organisation ministerial talks in Cancun, Mexico, the summit highlighted the global trend toward the formation of exclusivist trade blocs and bilateral agreements. The Bali Accord II, issued after the event, commits the member-states to accelerating the reduction of tariff and non-tariff barriers against one another in 11 areas, including electronics, air travel and tourism. China and India both signed ASEAN's Treaty of Amity and Co-operation and work is proceeding on possible free trade agreements with China in 2010, India in 2011 and Japan in 2012.

There are considerable doubts, however, that a common South East Asian market—let alone a larger East Asian bloc—will actually materialise. ASEAN's inability to agree on any date sooner than 2020 has reinforced the view in international financial circles that it is too divided and ineffectual to provide the basis for the economic integration of the region.

Before the talks formally began, Thai Prime Minister Thaksin Shinawatra and Singapore Prime Minister Goh Chok Tong urged a much faster integration of the region. Both leaders warned that the potential for an integrated market of some 500 million people would be lost without urgent action. Thaksin declared bluntly: "Seventeen years from now might be too late." He told business leaders on the eve of the summit: "This is the time for action, this is the time to adapt to meet the change, this is the time to realise regional economic integration."

Singapore's Goh, referring to the breakdown at the WTO, told the same business forum that a single South East Asian market, with the free movement of goods, services and capital was "the only way" the region could "remain competitive in the face of the growing regional and bilateral free trade agreements".

Underpinning the sense of urgency from Goh and Thaksin is the fact that competition from China—and India to a lesser

extent—has made it impossible for ASEAN to regain the status it enjoyed in the mid-1990s as a favourite destination for foreign direct investment.

In the 1980s and 1990s, ASEAN "economic tigers" such as Malaysia, Indonesia and Thailand experienced rapid economic growth, as well as expanded trade relations with Japan, North America and the European Union (EU) as a result of investment by transnational corporations and the establishment of export industries.

But by 1997, following the devaluation of the Chinese currency in 1994, global investment flows had shifted dramatically to China, taking advantage of far lower labour costs. In 1996, South Korea and ASEAN members Indonesia, Malaysia, the Philippines and Thailand received a combined private capital inflow of \$US93 billion. In 1997, this had transformed into an outflow from the five countries totalling \$US12 billion.

From July 1997, the entire South East Asian region was rocked by currency devaluations, stock market collapses and financial crises. While a recovery of sorts has taken place, ASEAN has become something of an investment backwater. In 2001, ASEAN nations received just 1.7 per cent of available global foreign investment. By contrast, China received nine percent—five times ASEAN's share.

As well as being the bloc's largest investor, Japan is its most important trading partner. But here, also, relations have deteriorated. In 1995, two-way trade with Japan totaled \$US121.1 billion, while in 2001 it had declined to \$US99.2 billion or 14.4 per cent of ASEAN trade.

In 2000, ASEAN exports began to climb after the decline in 1997-1998, reaching \$US408 billion. But an economic slowdown in the US and EU, combined with recession in Japan, saw the figure drop back sharply to \$US366.8 billion in 2001.

The ASEAN countries regard China as their primary export market of the future. As industry has burgeoned there, ASEAN members have increased their exports of energy, raw materials and parts to Chinese-based plants. A large Chinese delegation led by premier Wen Jiabao attended the summit as observers and promised even stronger ties. Wen forecast that by 2005, China's trade with ASEAN will have

increased to \$US100 billion from the present level of \$US55 billion.

Figures like Goh and Thaksin hope that a unified South East Asian market, combined with closer relations with China, would attract back investment and bring about a return to the rates of economic growth the ASEAN countries were registering in the early 1990s.

But Ernst Bower, chairman of the US-ASEAN Business Council, warned at the start of the summit that the region's marginalisation would continue in the absence of increased economic integration and major reform of labour laws, judicial systems and customs duties. China and India, as well as more than matching the low cost, highly skilled labour available in many of the South East Asian nations, can offer transnational corporations the advantage of unified states. Transferring capital, unfinished goods or personnel from Shenzhen to Shanghai, or from Bangalore to Bombay, does not involve the same administrative and financial overheads as moving between Jakarta and Bangkok.

The great obstacle, however, to the ASEAN nations' integration is their uneven economic and political development. While the group includes relatively developed economies such as Singapore and Malaysia, the combined Gross Domestic Production (GDP) of ASEAN's 10 members is only marginally larger than that of South Korea, and smaller than that of China. Even the six nations that formed ASEAN in 1967—Thailand, Singapore, Indonesia, Malaysia, the Philippines and Brunei—find it difficult to come to a common agreement on economic policy.

In Indonesia, for example, foreign investment has established a modern export sector and created a significant industrial workforce in some cities. But a large proportion of the economy remains mired in backwardness. Tens of millions of peasant producers continue to survive by semi-subsistence agricultural production.

In contrast, Singapore is based upon finance, industry and trade and has virtually no agricultural sector to speak of. It had no trouble signing a free trade deal with the US, as American agricultural commodities pose no threat. Opening Indonesia's agricultural markets to outside competitors, however, would threaten the livelihood of large numbers of peasants, with unpredictable social consequences. The inclusion of the even more backward economies of Vietnam, Laos, Cambodia and Myanmar (Burma) into ASEAN has only accentuated the problem.

Malaysia's capital controls, imposed during the Asian economic crisis, have also created complications. The other main ASEAN states allow the free movement of capital.

The consequence has been a lack of economic integration, revealed in the slow growth of intra-ASEAN trade. From the inception of the ASEAN Free Trade Area (AFTA) in 1993

until 2002, intra-ASEAN trade as a share of all exports only increased from 21.14 percent to 22.75 percent. Even these figures do not tell the whole story. Much of this intra-ASEAN trade is, in reality, intra-firm trade—the transfer of unfinished goods between various production sites of transnational companies in the region, with the final intended market being the major economies.

ASEAN's problems are aggravated by the association's tradition of "non-intervention" in the internal affairs of member states. While the policy was conceived as a bulwark against political criticism of each other's authoritarian regimes, it also mitigates against the ASEAN states pressuring one another on economic matters. They made a tentative step to break with the policy earlier in the year, when all nine other members publicly called on the Burmese military junta to release the imprisoned opposition leader Aung San Suu Kyi—in line with a demand from the Bush administration. By the time of the summit, however, there was apparently no agreement on continuing to pressure Burma. The fate of Suu Kyi was politely side-stepped, while the Accord reaffirmed ASEAN's adherence to the "principle of non-interference".

In a sign of growing impatience with the organisation, Thailand has joined with Singapore in pursuing its own bilateral trade deals outside of the group—with the US, China and India.

One feature of the Bali summit carried a certain symbolic significance: Indonesia's Megawati Sukarnoputri's tearful tribute to Malaysian Prime Minister Mahathir Mohamad, who is due to retire after 22 years in office at the end of this month.

In the 1980s and 1990s, Mahathir was perhaps the most vocal advocate of the South East Asian ruling elites using their growing economic clout to assert a degree of independence from the major powers—one of the objectives on which ASEAN was founded. The Asian financial collapse shattered the basis of those ambitions. In a matter of months, it demonstrated that the ASEAN states were still economically and politically dependent on their former colonial masters. There is a distinct possibility that the organization could soon follow its Malaysian champion into obscurity.



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