

# ASEAN summit: amid talk of cooperation, economic rivalry on the rise

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The annual summit of the Association of South East Asian Nations (ASEAN) in Bangkok last weekend followed what is becoming a familiar pattern at top-level international gatherings. Amid a sharp downturn in all 10 member states, ASEAN leaders pledged themselves to economic cooperation and free trade, even as they resort to protectionist measures and economic rivalry intensifies.

The summit statement reiterated ASEAN plans for a single market similar to the European Union by 2015, defended free trade and called for the free flow of goods, capital and labour. Even prior to the present global recession, many analysts believed such a deadline was unachievable given the huge disparities among the ASEAN members.

Summit chairman, Thai Prime Minister Abhisit Vejjajiva, called on all members to oppose protectionism, saying: "We will be severely tested from now on, both as a group and as a part of the broader Asian region." Yet, protectionist moves are already evident, while leaders pay lip service to the free market credo.

Malaysian Prime Minister Abdullah Ahmad Badawi, for instance, told the summit: "All of us are of one mind that we are anti-protectionism. If we know of any country that practices protectionism, then we will want to engage and talk to that country." His government, however, has already launched a "Buy Malaysian" campaign with the support of local retailers and manufacturers.

Outside the summit, Badawi told the *Bangkok Post* that it was perfectly normal to buy locally-made goods amid economic crises. "If we are not supportive of our own industries, and do not buy our own products and services we will have a serious problem," he said.

Noting the reluctance of ASEAN members to open their markets, Philippine Trade Secretary Peter Favila told the Associated Press: "Some ministers during unofficial discussions on the sidelines were saying that in the light of the global meltdown of course the local industries were affected." In the Philippines, business groups are pushing the government to insert a "Buy Pinoy, Buy Local" clause into planned stimulus packages.

Last month, the Indonesian trade ministry issued an order to all civil servants to support Indonesian businesses by buying locally-made food, beverages, footwear, clothing and even music.

Despite ASEAN pledges for the free flow of labour, governments are whipping up chauvinist sentiment by blaming migrant workers for stealing local jobs. In Malaysia, where migrants constitute one fifth of the workforce, the government has announced the expulsion of 100,000 Indonesian workers. Thai authorities last month seized on a rape case in Chang Mai to deport hundreds of Burmese workers.

The project of an ASEAN free market was flawed from the outset. Trade flows are not primarily within the South East Asia, but to countries outside the region. ASEAN members are competitors for foreign investment and markets, and rivalry will intensify as the global crisis deepens.

ASEAN members developed as cheap labour platforms, relying particularly on Japanese capital and exporting to European and US markets. After the 1997-98 financial crisis, their reliance on exports increased as they sought to build up large foreign reserves to protect themselves against another financial shock.

ASEAN countries are now completely reliant on demand in the US, Europe and Japan, which are all in recession. Among the ASEAN members, only the Philippines and Indonesia have lower ratios of exports to the GDP now than in 2001. ASEAN as a whole is almost twice as dependent on exports as compared to the rest of the world.

In the wake of the 1997-98 meltdown, China emerged as the premier cheap labour platform and ASEAN countries became major suppliers of components and raw materials to Chinese factories. China, however, itself depends on exports to the US, Japan and Europe, its economic growth has halved since 2007 and its demand for ASEAN's export is falling rapidly.

Any hope that China's huge stimulus measures will help other Asian economies is misplaced. James McCormack, Asia head of Fitch Rating, told the *Financial Times*: "There is a sense in Asia that as long as China continues to grow relatively quickly, then the

rest of Asia will benefit... China is now the most important market for many Asian export-oriented economies, but it appears to us that China's economic stimulus plan will support domestic investment, which is not necessarily import-intensive."

More bad economic news confirms that the ASEAN economies face a severe downturn. Singapore, which is almost totally dependent on trade, is already in deep recession, with a 16.4 percent annualised contraction in the last quarter of 2008.

Indonesia, the largest ASEAN economy, recorded its worst decline in exports in 22 years in January—35.5 percent from a year earlier. The declining demand from Japan, the largest market for Indonesian goods, was a major factor. The official forecast for growth is 4.5 percent, down from 6.1 percent in 2008, but the figure is no more reliable than the overly optimistic predictions of other Asian governments.

The value of the Indonesian rupiah declined 23.7 percent against the US dollar in the past six months, making it the second worst performing Asian currency after the South Korean won. The cheaper rupiah did little to help exports, but increased the cost of imported wheat, fuel and auto parts. The global credit crunch is compounding the government's problems. Last week, Indonesia had to accept extortionate interest rates of 11.75 percent to secure \$US2 billion on the international bond markets.

Thailand, where exports account for more than 65 percent of GDP is heading toward its first recession in 11 years, after an annualised contraction of 4.3 percent in the last quarter. Thai exports recorded a 26.5 percent decline year-on-year in January. The official forecast for 2009 has been revised from 4 percent growth to a 1 percent contraction in 2009. Unemployment is expected to rise to 1 million by April-May, double the figure from 2008. Bangkok is planning a \$56 billion stimulus package over five years, but is already seeking \$2 billion from the World Bank or Asian Development Bank to cover this year's budget shortfall.

The Malaysian finance minister, Najib Razak, has indicated that the previous forecast of 3.5 percent growth for 2009 would have to be revised down. Some analysts are warning of a recession, the first since 1998. The growth figure for the last quarter of 2008 was just 0.1 percent. The manufacturing sector, which accounts for one third of GDP, contracted by 8.8 percent in the same quarter—the first decline for 26 quarters—mainly due to a sharp fall in exports by 13.4 percent. Layoffs are rising, raising fears that unemployment could double to 6 percent by 2010.

The official forecast for the Philippine economy in 2009 is 3.7 percent, down from 4.4 percent last year. However, this is based on the assumption that the one million Filipinos working overseas will keep their jobs and continue sending remittances home. The prediction also assumes that business outsourcing, especially call centres, will continue to expand. Unemployment is already at 6.8 percent, the highest in South East Asia, and is rapidly heading toward double digits. National Economic and Development

Authority official Ralph Rector told reporters in February that up to 200,000 workers would be laid off this year.

In Vietnam, which has emerged as a major source of cheap labour, economic growth in the first quarter is expected to be between 4 and 4.5 percent, compared to 7.4 percent for the same period in 2008. Exports fell in the first two months of 2009 by 5 percent compared to the same period last year. Rubber exports, however, collapsed by 50.5 percent, electric wires 45 percent, woodwork 26.3 percent, apparel 12 percent, computers and accessories 13.7 percent and seafood 6 percent. Job losses in 2009 are expected to reach 400,000—five times higher than last year.

The main pressures for the formation of an Asian trade bloc come from the regional powers—Japan and China—who see it as a means of securing their dominance in the region against their American and European rivals. ASEAN members all have high debt to GDP ratios and depend heavily on capital from outside the region. The ASEAN plus 3 (China, Japan, South Korea) meeting prior to the ASEAN summit enlarged the regional fund to defend local currencies from \$80 billion to \$120 billion, with most of the money coming from Japan and China.

However, just as ASEAN itself is fraught with internal rivalries, Japan and China are involved in a sharpening competition for political, strategic and economic influence within South East Asia. Far from integrating the region by 2015, the small steps taken toward an Asian free trade zone over the past decade are likely to stall or collapse completely as the global crisis intensifies.



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