

World Financial Crisis And ASEAN Economy

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Introduction

Each ASEAN country has its own characteristics of population, size of territory, level of economic development and economic orientation, which distinguish it from the others. It is therefore very difficult to find a single image that may represent the ten ASEAN members as a whole. The city states such as Singapore and Brunei Darussalam, for instance, have adopted special kind of economic policies and strategies that are different from other ASEAN countries such as Indonesia, Malaysia or Thailand, with the core focus of creating conducive environment for businesses and foreign investment, to name a few. Given these narrative aspirations, it also seems reasonable to suggest that available policies and strategies differ accros countries within ASEAN, depending on country conditions and focus of interest.

Take Indonesia as an example. With population of approximately 230 million (larger than the combined size of the population of other nine ASEAN member countries), the country has innumerable possibilities to engage in domestic market-based policies and strategies. Having obtained a large territory, which is longer than the distance between Tokyo and Singapore, also raises the possibilities for the country to develop an agricultural-based economy. While the huge population and large administrative territory provide many key advantages for Indonesia, it is not probable that any country such as Singapore and Brunei Darussalam should ever try to adopt these kind of policies and strategies. Rather than relying on tiny domestic market or pursuing agricultural-based economy, Singapore, for example, seems well on its way to developing its financial sector and becoming a leading financial market in Asia.

The heterogeneity of ASEAN member countries is an interesting fact that will be evaluated more deeply in this paper. Specifically, it attempts to discuss the competitive advantage of every ASEAN member country, which are obviously different depending on the development stage of each country. Prior to embarking on a detailed analysis, and as requested by the committe of this symposium, please allow me to begin with revealing the ASEAN strategy in anticipating the negative impacts of the current global financial crisis to the region. In relation to the topic mentioned earlier, I believe it will be more appropriate to firstly discuss the background of ASEAN as a regional organization. Please bear in mind that "the strategy" I am going to discuss are not the strategy of the individual ASEAN member countries, but they are considered the ASEAN strategy.

The Strategy

ASEAN has been established in 1967, however, only very recently it is regarded as a normal organization that has a clear legal status, engagement rules and structure, especially after the Charter of ASEAN has been fully ratified by all ten ASEAN member countries. With formal ratification of the ASEAN Charter, which is essentially the Constitution of ASEAN, ASEAN is no longer a loose association and instead it has been transformed perfectly to a legal entity that has a juridical personality or legal standing. In its new form, ASEAN not only has achieved a new spirit of collaboration between countries, but also a

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new force to unite its ten members. In addition, all policies decided at ASEAN high level meetings will now become a legal binding, which must be obeyed by all ten members of the organization.

Looking back on the Asian Monetary Crisis in 1998, it can be argued that if the big disaster experienced by ASEAN countries at that time was due to weaknesses in the system, today we can hope that ASEAN will be able to minimize the negative impact of the global financial crisis on the region. Or, at least, we can do it far better than before.

As an old saying goes, experience is the best among all teachers. Another wise words, "even a dumb horse will never be trapped twice in the same location". Based on their past experiences, hence, ASEAN and its counterparts are now taking all necessary measures in addressing the common threats confronting their regions, as indicated by contraction in ASEAN countries' economies and depreciation of the exchange rates, just to name a few.

Since the depreciation can contribute to strong negative impact on trade balance, swollen foreign debt (the national debt are swelling due to currency depreciation), and economic fragility caused by speculators or profit takers, ASEAN and its counterparts are now hand in hand in preventing the exchange rates of the member countries from further decline. Few days ago, for example, ASEAN+3 (ASEAN+China, Japan, and South Korea) has increased the ASEAN foreign reserves from 84 billions USD to 120 billion USD. The Asian Development Bank (ADB), sponsored by Japan, has also decided to double its current capital base, to response to the current circumstances.

If we assume that the ASEAN foreign exchange rates and foreign reserves, to some extent, are stable and strong enough in addressing the forthcoming threats, the next measure for ASEAN is thus to prevent further decline in its economy and future economic growth.

Compare to the 1998 Asian Monetary Crisis, it is evident that the impact of the current World Financial Crisis is more severe and much more difficult to solve. During the Asian Monetary Crisis, only ASEAN countries and several countries in the East Asian region has experienced the crisis that started with the financial collapse of the Thai baht in July of 1997. In such a situation, global demand and the purchasing power of world economy was steadily high and hence, it is still possible for ASEAN countries to export their products (as long as they can produce). Today, however, although ASEAN countries are capable of producing their products as usual, weak demand in global market makes it difficult for the countries to have high export orders.

In current sluggish world economy, it is not easy or it is even impossible for ASEAN and other Asian countries to maintain its relatively high economic growth. In case of preventing the region from a further negative impact of the curent world financial crisis, however, it seem that ASEAN countries have enough capability of overcoming the crisis. The current world financial crisis, for example, has became a trigger for ASEAN countries in integrating their economies. And, at the same time, the countries open up their domestic markets wider to domestic producers, to ensure high absorption of local products by domestic market. This is important because only in a more integrated ASEAN we could maintan our competitiveness. Furthermore, the Prime Minister of Thai said the confidently in his speech at the ASEAN Headquarter in Jakarta few days ago that "the integration is the only possible way that may ensure a more better future for the ASEAN people".

Competitive Advantage

It was mentioned earlier at the beginning of this presentation that ASEAN is not homogenous. Since the characteristics of ASEAN countries are different from each other, it is reasonable to suggest that every country has its own competitive advantage, which could be interesting to discuss. Considering the limited time available, however, I am practically unable to discuss every little details of the issue and instead focusing only on my country: Indonesia.

As one of the most populous countries (the fourth most populous country in the world), Indonesia is certainly one of the biggest and the most potential markets in the world. In this sense, if the income per capita and the purchasing power in Indonesia keeps growing, the country will undauntedly play the key role as one of the world largest market, absorbing huge percentage of global total output.

Compared to China and India, which are also the most populous countries in the world, the picture of Indonesia is slightly different. While China and India are now concentrating on building a manufacturing-based economy and IT-based economy respectively, Indonesia (similar to Philippines and Thailand) is likely to place more emphasis on the agro-industrial

developments (including marine product industries). Large human resources, together with a friendly tropical climate and hectares of arable land suitable for agriculture activities are some of the country's potential and the key ingredients for competitiveness.

I do not intend to argue that there is no automotive industry, no aircraft industry, or no textile industry in Indonesia, nor did I intend to say that these kind of industries are not suitable for the country. What I would like to stress here is that the agro-industrial is the strongest potential owned by Indonesia, which can be made robust not only to enhance the nation's economic performance, but also to support the economic growth in the ASEAN region.

While human resources, huge low-cost land and favorable climates are the primary bases for Indonesia's competitive advantage, they would be hampered without the existence of advanced technology and world class infrastructure in the country. Advanced agricultural technology is critical to develop the agriculture sector as efficient as possible, whereas world-class infrastructure is necessary to ensure the products to be distributed to diverse markets at the lowest possible costs and in the best possible condition. The preceding discussion implied that it is for Indonesia, as well as for other ASEAN countries like Thailand, Myanmar, Laos, Cambodia and Phillipines, to find potential investors to invest in agriculture technology and agriculture infrastructure, to transform the potentials of these countries to competitiveness. This is particularly important when we consider the recent dramatic escalation in food prices globally, which raised serious concerns about food insecurity. Arguably, investment in agro-industry is not only profitable, but is also required to prevent severe food shortages from happening in the future.

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