

Regionalism Beyond An Elite Project: The Challenge of Building Responsive Sub-Regional Communities

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Asian Regionalism in Perspective

East Asia's development has been described to follow the 'flying geese' model, which envisages the relocation of production from a lead economy to other countries in search of lower costs. In this model much of the output is exported back to the lead economy, and the followers gain industrial and economic strength that eventually graduates them to the status of secondary geese. This relationship is maintained by the export-related FDI flows from the leading or secondary geese to the followers which are used to develop the next generation of productive capacity. However, this process is only possible with dynamic trade flows in both directions: followers import capital goods and more sophisticated products from the leading geese, while the leading geese receive exports (usually intermediate goods or low value-added manufactures) from the followers.¹

The development path taken by East Asia explains the high degree of vertical specialization in the region. Vertical specialization is the "slicing up of the production process into distinct steps, allowing specialization across locations (locational decentralization) and firms (outsourcing)." This is partly reflected in the growing levels of intra-industry trade and underlies East Asia's focus on labor-intensive manufacturing industries.² (See Table 1.)

Yet the 'flying geese' model has had its time. How much further expansion can proceed and how much more it can contribute to sustaining growth in the region are major concerns. East Asia cannot continue to hinge economic integration upon vertical specialization. The entry of Cambodia, Laos and Vietnam in the ASEAN affords some room for unloading lower value-added production by the older members.³ However, the pace of progress attained in expanding higher value-added manufacturing in the ASEAN

¹ Jenina Joy Chavez, "From Flying Geese to Cog and Wheel: Some Issues on Sub-regional economic Zones", Asian Exchange Vol. 14 No. 1, 1998.

² International Monetary Fund, World Economic Outlook, September 2002.

³ Jenina Joy Chavez, "Economic Integration in the ASEAN: In Need of Another Miracle", Asian Exchange Vol. 13 No. 2, 1997

has slowed down in recent years. The financial crisis dealt a heavy blow to Southeast Asia's manufacturing and industrial capacity. This was exacerbated by the downturn in the U.S., which has traditionally been a major market for Southeast Asia's high-end exports.

Table 1
Some Indicators of Vertical Specialization in East Asia

	<i>Share of Total Trade Growth Due to Intra-Industry Trade Growth</i>		
	1986-90	1991-95	1996-2000
East Asia	42.5	46.9	75.0
	<i>Ratio of Merchandise Trade To Merchandise Value-Added</i>		
	1980	1990	2000
Asia	93.8	115.6	168.5
China	12.1	23.7	32.9
Newly Industrialized Economies <i>a/</i>	216.5	259.3	365.5
Others <i>b/</i>	39.4	52.4	84.3

a/ includes Hong Kong SAR, Korea, Singapore and Taiwan Province of China

b/ includes Bangladesh, Pakistan and the ASEAN-4 (Indonesia, Malaysia, the Philippines and Thailand)

Source: International Monetary Fund, World Economic Outlook, September 2002.

This concern becomes even more pronounced by the swiftness with which China was able to insinuate itself into the regional economic dynamics. China is seen as a big threat, to which optimists would offer the following facts as counter-argument: For the past decade and a half, China has been importing more from Southeast Asia than it has been exporting to it. Growth in China creates more opportunity for the sub-region in that it offers a big domestic market that can absorb huge amounts of imports, and because the Chinese themselves have become investors in Southeast Asia. Further, China has so far been content to take on the lower-end of the production stream. It can therefore bring about a new pattern of regional division of labor and create greater impact for economic integration. If Southeast Asia is losing competitiveness, it is not because of China but because of the changes in the structure of markets on the demand side.

It is pointless to dispute these arguments, for so far they are indeed supported by factual evidence. But China really competes with Southeast Asia's labor-intensive manufacturing industries. What more, it competes in a way that Southeast Asia without doing anything now will sooner or later find difficult to address. China has taken great strides in technology absorption and improvements in industrial capacity, and has been moving not only into production areas the ASEAN has left behind, but also into newer

areas the ASEAN has not so long ago entered. The biggest threat of China is in light of its advance to newer production areas the ASEAN still has huge interests in faster than the ASEAN itself can move into higher value-added production.

The inadequacy of the growth model that guided the ASEAN, the apparent China threat, the differential level of development by new ASEAN members, and various developments external to Asia and globally – increasing regionalism in Northern America and Western Europe, the march of globalized trading regimes, etc. – have all provided the momentum for ASEAN to move more swiftly towards economic integration in the early 1990s. ASEAN has also encouraged various forms of regionalism and sub-regionalism to address diverse needs, to respond to different actors, and to service a range of political exigencies. These new forms are both formal and informal and have varied records of success and failure.

Sub-Regionalism, ASEAN-X, ASEAN Plus X: Solution or Dilution?

Aside from ASEAN itself as a grouping, there are three general forms of regionalism the ASEAN has embarked on since the 1990s. These are ASEAN-X, the “cog and wheel” model of sub-regionalism, and the “hub and spoke” model of expansion.

ASEAN recognizes and appreciates the readiness of some of its members to move into cooperative schemes more readily than others. This is particularly true for trade and economic liberalization. The cooperation mode popularly known as ‘ASEAN-X’ is a way around the sticky consensus process in the group. This means that members are free to decide how fast and how far they want to go into the cooperative scheme at a given time. Only those countries signing into specific arrangements will be bound by, and therefore benefit from, such arrangements. An individual country-member will only enjoy the same benefits that it is willing to give to other members. Notwithstanding such flexibility, the regional grouping agrees to adopt common milestones or dates or deadlines where commitments are supposed to be harmonized within a range (e.g. 0-5% tariff by January 1, 2003).

Another mode of cooperation is a unique Asian invention called growth polygons. Growth polygons group provinces or states from different countries (or in the unique case of the Greater Mekong Sub-region, groups smaller and/or newer members with provinces in more advanced countries). They are the supposed sub-regional answer to declining competitiveness of areas or countries that face rising factor, particularly land and labor, costs. The polygons are supposed to serve as the new centers of development from the different member countries, thus the ‘cog and wheel’ metaphor.⁴

The third mode is very similar to the second, except that instead of going inward it goes outward, or the “hub and spoke” model. ASEAN is the hub that extends its reach towards other partners, with ASEAN+3 (a forum with Japan, China and South Korea) as the most popular articulation these days. The ASEAN Plus X concept supposedly

⁴ J.J. Chavez, “From Flying Geese to Cog and Wheel”, *op cit.*

answers the need for the ASEAN to forge stronger links with its traditional 'sponsors' and the bigger markets in the region. In this manner, part of the extreme competitiveness between and among ASEAN members can be tempered.

These three modes are supposed to cover multiple levels of needs. Yet, as they say, the proof of the pudding is in the eating. The developments along the lines of these three modes should be gauged against whether or not they actually deepen Southeast and East Asian integration.

The Challenge of Deepening Integration

Between 1984 and 1993, the newly industrialized Asian economies, and all of the ASEAN-4 except the Philippines, grew at an average rate of at least 6.5%, with Thailand posting the highest real GDP growth for the period at 8.7%. From 1994 to 1999, all these countries experienced drastically lower average growths, with Thailand plummeting the most at only 2.8% real growth. The only exception was again the Philippines, which experienced a higher average at 3.6% versus the 1984-93 average real growth of only 1.0%. Note that the years from 1994 to 1996 were still relatively high growth years for these countries. It was only during the crisis years between 1997 and 1999 that GDP growth really nose-dived. (*See Table 2.*)

Recovery was apparent in 2000, but this was cut short by the downturn in the United States and the rest of the developed world. As a result, Singapore and Taiwan experienced economic contraction for the first time in three decades. In the ASEAN-4, the highest growths were achieved by Indonesia and the Philippines, traditionally the slowest growing countries in ASEAN-4.

The contraction was largely brought by sluggish exports as Northern markets scaled back orders. The stronger showing of Indonesia and the Philippines, on the other hand, was supported by better than expected agricultural growth.

The economic slump once again brought agriculture to the forefront. Yet, the seeming preoccupation of the various regional initiatives in Southeast and East Asia has very little to do with agriculture. The absence of a more proactive treatment of agriculture by the ASEAN, the various sub-regional, and bigger East Asian regional initiatives has limited to great extent their potential at more cohesion and deepening.

The evidence shown by the crisis and its aftermath should be another wake up call for East Asia, quite particularly for Southeast Asia. With the exception of Malaysia and Singapore, agriculture would account for around 40% of total employment in Southeast Asia, with the percentages being significantly higher for the newer members (Cambodia and Laos). The financial crisis episode also displaced a lot of workers, many of whom have not gone back to their old jobs or found new ones. The global economic downturn has also started to exert pressure on employment. Add to this the employment impact of

privatization and economic restructuring, where many state workers are being separated from their jobs and not being absorbed by the privatized entities.

Agriculture, therefore, becomes an important arena of cooperation. First, industry's appetite for labor has slowed down significantly, and for some countries this has been the case for quite some time now. And second, there is great space for the development of economic (backward and forward) linkages in agriculture.

How it deals with agriculture at this time will determine whether or not ASEAN can move beyond the elitist project that ASEAN has come to be regarded as. That is, whether or not it can develop a broader base for itself.

Table 2
Real GDP Growth in East Asia: 1984-93, 1994-99, 2000 and 2001

	1984-93 average	1994-99 average	2000	2001
Newly Industrialized Asian Economies			8.5	0.8
Hong Kong SAR	6.5	2.8	10.4	0.2
Korea	8.2	5.5	9.3	3.0
Singapore	7.5	7.1	10.3	-2.0
Taiwan Province of China	8.3	6.1	5.9	-1.9
ASEAN-4			5.1	2.6
Indonesia	6.7	2.7	4.8	3.3
Malaysia	6.9	5.8	8.3	0.5
Philippines	1.0	3.6	4.4	3.2
Thailand	8.7	2.8	4.6	1.8
Brunei Darussalam		2.3	3.0	2.7
Cambodia		5.1	5.4	5.3
Lao PDR	5.0	6.3	5.8	5.2
Myanmar	1.1	7.1	5.5	4.8
Vietnam	6.0	7.3	5.5	5.0
China	10.5	9.4	8.0	7.3
Japan	3.7	1.3	2.2	-0.4

Source of Basic Data: International Monetary Fund, World Economic Outlook, September 2002.

Cooperation should go beyond opening up, and should stress cooperation in bridging the gap between prosperous and less prosperous areas in the region. Regionalism and sub-regionalism should be a source of development finance that will

support truly Asian articulation of development (versus restrictive options of privatizing and streamlining government's role in the economy, even if such may not be warranted by economic and political realities). They should always aim to find ways to preserve and develop what is Asian in East Asia, and project what in Asia is global. Unfortunately, the first bold attempt of East Asian economies to arrive at some financial mechanism, the Asian Monetary Fund in the aftermath of the crisis, was effectively thwarted by strong pressure from the United States and the International Monetary Fund, and the open non-support of China. This has dimmed the prospects of developing financial mechanisms that go beyond balance of payments assistance, and that will straddle alternative approaches to development finance.

Another gauge of deepening is East Asia's ability to reduce its over-dependence on Northern markets, particularly the U.S. market. Not only can greater interdependence among Asian countries counter some of the pull-down factors contributed by the economic downturn in the North, it will also give the region a stronger place in the global economic arena.

Finally, a more integrated Southeast and East Asia will necessarily steer the focus away from just the economic elements, and give attention to the social and political aspects of cooperation. In the current U.S. war against terror, there is a big amount of profiling of Muslims. Half of Southeast Asia is Muslim, and the anti-terror war is creating a lot of antagonism as well as heightening old conflicts.

Sub-Regional Groupings for Sub-Regional Communities: The Case of BIMP-EAGA⁵

Although in itself a promising experiment, the sub-regional grouping/growth polygon concept has not taken off beyond the economic imperative. The concept suffers from a number of concerns that have yet to be adequately addressed. Growth polygons are built around observable comparative advantage between points of the polygon. A hub or a key economy around which much of the prospects and initiatives for the polygon revolve is crucial. The hub's relationship with the other points is usually based on the need for a single resource, e.g. land and water resources. Because of this, the vulnerability of the hub is passed on to the other members of the polygon, and distributional conflicts within the sub-regional groupings become critical. Finally, projects conceptualized for growth polygons tend to be large-scale that require huge investments. This is due in part to the heavy involvement of multilateral institutions like the Asian Development Bank. The result: ambitious initiatives that are bigger and more expensive than might be needed in the sub-regions.

The failure of sub-regionalism to embrace broader cooperation highlights the limitation of economic growth as an objective. The failure to bring in other stakeholders

⁵ This section takes from J.J. Chavez, "From Flying Geese to Cog and Wheel", *op cit.* and "Co-opting Cooperation: The Asian development Bank and Sub-regional Economic Zones" in *Creating Poverty: The ADB in Asia* (Focus Dossier, 2000)

to the process jeopardizes the success of cooperation, especially during times of economic slowdown. The case of the Brunei-Indonesia-Malaysia-Philippines East Asian Growth Area (BIMP-EAGA) is a case in point.

BIMP-EAGA is composed of contiguous areas, with Brunei Darussalam as the only country member. The other member-territories are the Indonesian provinces of West, Central, South and East Kalimantan, Central, North, South and Southeast Sulawesi, Maluku and Irian Jaya Provinces; the Malaysian states of Sabah and Sarawak and the federal territory of Labuan; and the Philippines' Mindanao (Regions 9-12 and the Autonomous Region of Muslim Mindanao) and Palawan. BIMP-EAGA has a population base of 48 million and a total land area of 1.56 million square kilometers.

Counting the vast bodies of water at its center, BIMP-EAGA is the biggest sub-regional grouping. The EAGA sub-regions are linked by a long history of trading activities between its many points. To this day, barter trade is still widely practiced, especially between the Labuan, Mindanao, Sabah and East and West Kalimantan areas. Local currencies are even accepted and local languages spoken in reciprocal fashion. To this extent the sub-grouping is already a *de facto* community.

Another unique feature is that the EAGA is the grouping together of, with the exception of Brunei, the economic laggards of Indonesia, Malaysia and the Philippines. The EAGA involves the least industrialized areas of the three countries. With few exceptions, the three sub-regions also register per capita incomes lower than the respective national averages. Together with Brunei, EAGA's production is largely natural resource-based. Of the four points, only P-EAGA exports agricultural products, with the three other sub-regions specializing in non-edible primary products like oil, gas, timber and petrochemicals.

What BIMP-EAGA did was to formalize and strengthen nascent economic linkages inside the sub-grouping. It also attracted national focus on the erstwhile neglected EAGA regions. Various trans-border agreements – on travel and trade routes, travel tax exemptions, port tariffs, customs, immigration and quarantine – were clinched at the initial stages of the BIMP-EAGA. The growth area facilitated economic interaction never before seen in the sub-region. Between 1994 and 1995, there were 253 trade missions from BIMP-EAGA to Mindanao alone.⁶ The Asian financial crisis and the ensuing global economic downturn, however, stalled a lot of the initiative in the BIMP-EAGA.

In 2001, moves towards the revival of BIMP-EAGA started. The Asian Development Bank, which bankrolled the formation of the sub-grouping, again took interest in the BIMP-EAGA. Business opportunity was again underscored, particularly the establishment of new air and sea links for moving people and cargo within the EAGA via the Davao-Manado (Sulawesi) and Zamboanga-Bongao (Tawi-tawi)-Sandakan routes. The target is also to make the transport of export cheaper by going through the back door (e.g. Sulawesi to the U.S. via General Santos, Mindanao to Singapore via Bitung, etc.)

⁶ Joji Ilagan-Bian, *Ibid.*

rather than via the ports in the capitals.⁷ A new focus is SME development in an attempt to broaden the impact of the sub-grouping.

Although recovery was slow for Southeast Asia, there are added insights from the structure of growth it achieved fresh out of the crisis. **Table 3** shows the economic growth achieved by the BIMP-EAGA countries and the different provinces or states included in the growth areas in 1999. Economic growth was higher in some EAGA points compared to the national growth achieved. This was attributed to the predominantly resource-based production in these areas that were less dependent on high value-added exports, which contracted significantly during the crisis.⁸ At least for the P-EAGA, this also highlights the importance of agriculture.

Table 3
Basic Economic Indicators for BIMP-EAGA

	Population		Incidence of Poverty (1999)	Gross Domestic Product (1999)		Unemployment (%)
	Total (Million)	Growth Rate (%)		Per Capita \$ (nominal)	Growth Rate (%)	
Total BIMP-EAGA	50.2					
Indonesia	210.5	1.5	20.43	705	2.8	6.4
Kalimantan	11.6	2.0	19.5	1059	3.1	
Sulawesi	15.0	1.7	20.8	422	3.4	
Malaysia	23.3	2.6	8.1	3854	7.2	3.1
Sabah	2.6	4.0	25.0			
Sarawak	2.1	2.1	6.6			
Philippines	76.5	2.4	34.2	958.8	3.7	10.1
Mindanao	18.1	2.4	47.8	698.4	5.0	7.6
Palawan	0.8	3.6	69.3	417.1	5.0	19.6

* All figures are for 2000, unless otherwise indicated.

Source: Asian Development Bank, *Sub-regional Cooperation Strategy and Program Status Report, 2002*.

Another insight is the limitation of anchoring cooperation on the expectation of growth. This constraint is caused by the almost exclusive focus on big business activities, and big private sector actors in the sub-region. As a result, the crisis virtually crippled what could have been a more dynamic community. It also punctuated the lack of a broader base for the sub-regional initiative.

⁷ Joji Ilagan-Bian, "Crisscrossing Mindanao", *Philippine Daily Inquirer*, 1 July 2002.

⁸ Asian Development Bank, *Sub regional Cooperation Strategy and Program Status Report: Southeast Asia, 2002*.

Alternative Regionalism

Earlier this year, the Philippines signed its first bilateral agreement on fisheries with Indonesia. Although not a BIMP-EAGA initiative, the agreement was prompted by strong advocacy from the tuna industry (both canners and fishers) for the establishment of joint management of tuna fisheries in the Celebes and Sulawesi seas and the definition of allowable catch in the Indonesian EEZ. Fisheries constitute a common property resource pool for the BIMP-EAGA, and it is in areas like this that regional and sub-regional groupings should be extremely sensitive about.

In August 2002, thousands Filipino and Indonesian migrants from various EAGA points were expelled from Sabah (another EAGA point) and other areas in Malaysia. While some left voluntarily, the issue was particularly sensitive as a sizeable number of migrants have been settling in and around Sabah for decades, some dating as far back as the war years. Malaysia temporarily halted deportations in September. Yet the issue was not resolved either at the EAGA or the ASEAN level, clearly a setback to meaningful regionalism.

Beyond big investments and export production, regionalism should play a role in protecting common property resources and community rights, and in finding ways of addressing difficult social and political issues. The issue of small producers, especially small farmers and artisanal fishers, is particularly critical as they tend to be excluded from the more formal regional fora, yet are the first to be marginalized in the event of policy restructuring and adjustment.

Finally, there's another kind of regionalism that is prompted by the resistance from different communities. Economic restructuring has not been a particularly easy process in East Asia. The reform of public utilities has started to reveal certain weaknesses in both design and process. The electricity sector is a case in point. Today, Indonesians and Filipinos alike experience the backlash of the IPP (independent power producer) episode in the electricity sector. The role institutions like the World Bank and the Asian Development Bank played in this will attract greater attention. The same will be true with the unbundling model implemented in these countries. As the price, market concentration, environmental protection, and consumer protection issues intensify, there will be renewed demands for alternatives, and to re-examine what in Asia was actually working before the restructuring. Countries that have shown some resistance, such as Malaysia, Vietnam, and China, to the extent that they can show better results in the reform process (than say, the Philippines and Indonesia), will be a source of lessons.

Increased awareness and linkages within and among regional and sub-regional communities will motivate peoples to demand more accountability and responsibility not only from their governments, but also from multilateral institutions and private investors. It will be the acid test of regionalism – for it to manifest a thoughtful vision of community beyond the limits it is now confined.

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