

EXECUTIVE SUMMARY

This study is designed to inform Australian business about the current status of the three major South East Asian growth triangles, to improve the knowledge base from which they can assess their future commercial prospects. It also provides business, academic and general readers with an Australian perspective on the theory and practice of growth triangles in South East Asia. Australia is not part of any of the South East Asian growth triangles, but, mainly because of the Northern Territory's developing links with the Brunei-Indonesia-Malaysia-Philippines-East ASEAN Growth Area (BIMP-EAGA), it takes an interest in their progress. Australian companies are active in a number of growth triangle areas.

Growth triangles are a recent and still evolving form of economic cooperation in South East Asia and empirical evidence on their operation is limited. Most are still at a conceptual stage of development, and lack substantial government sector investment or private sector commitment. Conclusions about their long term prospects must therefore be tentative. However, all the growth triangles have received strong backing from their participating governments.

The three growth triangles featured in this study were chosen because of their geographical proximity to Australia and the commercial opportunities they may create for Australian business. The study explains how the growth triangle concept works in theory. It then examines the performance, or projected performance, of the three growth triangles and considers their likely ability to deliver economic growth. The study concludes by highlighting areas where Australian companies might seek commercial opportunities in growth triangles.

WHAT IS A GROWTH TRIANGLE?

The growth triangle is primarily an economic concept, although it is underpinned by strong political motivations. The model involves linking adjacent areas of separate countries with different endowments of factors of production - such as land, labour and capital - and different sources of comparative advantage, to form a subregion of economic growth. Growth triangles seek to reduce regulatory barriers to the exploitation of economic complementarities in order to gain a competitive edge in attracting domestic and foreign investment, and to promote exports for the mutual benefit of the areas and countries involved.

Empirical studies based on this model identify *economic complementarity*, *geographical proximity*, *political commitment* and *infrastructure development* as key factors determining the success of growth triangles. These are preconditions for the most critical factor of all: private sector commitment. While growth triangles are facilitated by governments, they must be private sector driven.

THREE GROWTH TRIANGLES IN SOUTH EAST ASIA

The three South East Asian growth triangles featured in this study are:

- the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) linking Singapore with the Indonesian provinces of Riau and West Sumatra and the Malaysian state of Johor;
- the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) linking northern Sumatra in Indonesia with northern Malaysia and southern Thailand; and
- the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) linking Brunei Darussalam with parts of eastern Indonesia, eastern Malaysia and the southern Philippines.

Of the three, only the IMS-GT is commercially operational at present. While the other two have received political commitment, they are still at a planning stage.


PROSPECTS

Although there appears to be a strong underlying economic rationale for the development of growth triangles, it is not yet clear how this will be translated into reality. In addition, the concept of growth triangles is a dynamic one. Their composition may change over time as areas graduate through different stages of development. Furthermore, economic growth is likely to be more rapid in some growth triangles than others.

Only the **IMS-GT** fits the classic growth triangle model of complementarity of factors and possesses all the key ingredients for success. The IMS-GT's achievements in generating strong growth in its component areas have stimulated other growth triangle initiatives in ASEAN. To maintain momentum, governments in the IMS-GT are investing in infrastructure and human resource development and extending the geographical and sectoral scope of cooperation. In addition, they are attempting to harmonise and simplify investment rules, taxes, land laws, labour market policies, immigration and customs procedures and other regulations to improve the subregion's attractiveness to foreign investors.

Strong forces of economic complementarity and comparative advantage should continue to promote economic development in this growth triangle.

In the **IMT-GT**, there is some economic complementarity between several areas of the growth triangle. It also benefits from geographical proximity and the political commitment of participating governments is strong. However, infrastructure in some components of the triangle is not well developed. The IMT-GT provides a useful framework to increase economic cooperation between its component parts, but the initiative remains some considerable way from being implemented. The areas involved are still generally underdeveloped and the benefits are likely to take many years to emerge. All three governments involved are motivated to make the IMT-GT work. The high level of political commitment, however, will need to be translated into policy action to overcome the development gap and regulatory barriers. Business interest and investor confidence in the IMT-GT initiative is still relatively low.



In the **BIMP-EAGA**, economies are generally competitive rather than complementary. Some of the component areas are also widely separated and basic infrastructure is weak.

The main potential in this subregion appears to lie in its extensive but largely untapped reserves of natural resources. Despite the evident weaknesses, the **BIMP-EAGA**, although at an early stage of development, should enhance economic interaction and cooperation between its component areas, particularly in the medium to long term. Although political commitment to the initiative is strong, this needs to be translated into effective action to dismantle barriers to trade and investment and develop infrastructure within the subregion. Private sector commitment to the initiative is also still weak. Government and business representatives in the **BIMP-EAGA** acknowledge the area could take up to twenty to thirty years before the anticipated dynamic economic development can be achieved.


COMMERCIAL OPPORTUNITIES FOR AUSTRALIA

Developing links between Australia and South East Asian growth triangles supports the broader national objective of strengthening Australia's engagement with Asia. The Northern Territory is especially active in pursuing such links.

At this stage, Australian commercial interests in growth triangles are largely limited to small projects and trade with local companies. The Australian presence is strongest in the **IMS-GT**, but commercial links are expanding with areas incorporated in the **IMT-GT** and the **BIMP-EAGA**.

As they develop, growth triangles will present a range of new trade and investment opportunities for Australian business. Australia has many products, technologies and skills that are directly relevant to the development needs of growth triangles (and other parts of the region). Many commercial opportunities will emerge in step with medium to long term progress in the growth triangles. Currently, markets in many growth triangle components are small and relatively underdeveloped. Niche markets will develop at different rates and require different inputs and approaches. Australian companies will therefore need to adopt medium to long term strategies.

The commercial opportunities will vary throughout the subregions involved. Infrastructure (particularly transport, electricity supply and communications), human resource development (particularly training, education and health), tourism, agriculture (especially agricultural technology and agribusiness), mining, minerals processing and manufacturing industry are all areas where future regional demand will be high and Australia has a strong comparative advantage. A number of Australian companies are already active in many of these industries in growth triangle areas.



Chapter 1

WHAT ARE GROWTH TRIANGLES?

In the early 1990s, interest in forming subregional economic growth areas - or growth triangles - increased sharply in South East and North East Asia. This was largely the result of economic dynamism in East Asian economies, national decentralisation policies and intensifying intra-regional economic links. These growth triangles reflect growing interest in promoting economic cooperation by reducing barriers to cross-border trade and investment.

In South East Asia, some ASEAN members view the implementation of cooperation at a subregional level as supporting broader trade liberalisation objectives under the Asian Free Trade Area, AFTA. Many regional governments believe that growth triangles may form models for full scale regional economic integration at a later date, as well as being vehicles to attract foreign direct investment and forming power houses of economic growth in the short to medium term.

This report will examine the nature of the three major growth triangles in South East Asia in an attempt to determine whether they are likely to fulfil these ambitious expectations and what opportunities they may provide for Australian business.

The growth triangle is primarily an economic concept, although it is underpinned by strong political motivations. These include the domestic imperative to spread the benefits of economic growth to lesser developed areas of national economies and a desire to improve political and strategic relations with neighbouring countries. The model involves linking adjacent areas in sovereign countries, each with different endowments of factors of production - such as land, labour and capital - and different sources of comparative advantage, to form a subregion of economic growth. This growth is driven by the private sector but is facilitated by the participating governments who cooperate to remove barriers to the flow of factors and goods across borders.¹ The concept of growth triangles is explored in more detail in this chapter. In practice, existing growth triangles adhere only in varying degrees to this model.

Currently, several growth triangle initiatives exist in different parts of Asia. This report examines the three major growth triangles in South East Asia.²

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¹ Asia Pacific Foundation of Canada 1994, 'Eastern Asia: the new shape of growth', p.4.

² The three were chosen due to the judgement that they are likely to produce commercial opportunities for Australian companies in the short to medium term. Brief details of the other major sub regional growth initiative in South East Asia, the 'Greater Mekong Growth Area', are in Appendix 1.

All three are between members of the Association of South East Asian Nations, ASEAN:

- The Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT), linking the Indonesian provinces of Riau and West Sumatra with the Malaysian state of Johor and Singapore.³
- The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) linking northern Sumatra in Indonesia with northern Malaysia and southern Thailand.
- The Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA or simply EAGA) linking Brunei with parts of eastern Indonesia, eastern Malaysia and the southern Philippines.

The Growth Triangle Concept

Growth triangles are a recent form of economic cooperation in South East Asia. The traditional rationale for such cooperation is that it supports development beyond national limits by increasing economies of scale and exploiting complementarities in production.⁴

As growth triangles are largely outward-oriented and investment-driven, and do not discriminate against non-participating countries, they are likely to promote cooperation and integration in ASEAN. They are considered by many in ASEAN as a ‘unique Asian solution to problems of achieving regional economic integration between countries at different stages of development’.⁵

ECONOMIES OF SCALE

Three types of economies of scale can be distinguished:

- economies of agglomeration which often require different mixes of factor endowments in different locations. An industry in one part of the subregion can take advantage of the technology and expertise available in another, for example, through joint ventures, to promote development;
- economies of scale in distribution, marketing, financial and business services; and
- economies of scale in public infrastructure such as utilities, transport networks, telecommunications, power and water supply.

The term growth triangle was first used in 1989 by the then Deputy Prime Minister of Singapore, Goh Chok Tong, to describe emerging subregional

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³ West Sumatra was included in the IMS-GT by Presidential Decree 27/95 of 4 May 1995. The same decree specifically *excluded* the area under the authority of the Batam Industrial Development Authority from the IMS-GT, but it is treated as *included* for the purposes of this study.

⁴ Thant, Myo and Tang, Min 1993, ‘Growth Triangles: Fad or Fact?’

⁵ Thant, Myo and Tang, Min 1993.

economic cooperation involving Singapore, the Malaysian state of Johor and Batam island in Indonesia (the Indonesia-Malaysia-Singapore Growth Triangle or IMS-GT). The term has evolved to cover various forms of economic cooperation between parts of three or more different countries.

Table 1.1


Growth Triangles in South East Asia

Name	Countries involved	Areas covered
Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT, also called SIJORI, JSR-GT or the Southern Growth Triangle)	Singapore	Singapore
	Malaysia	Johor state
	Indonesia	Riau and West Sumatra provinces
Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT, also called the Northern Growth Triangle)	Indonesia	North Sumatra province and the Special Territory of Aceh ⁶
	Malaysia	Kedah, Perak, Penang and Perlis states
	Thailand	Satun, Songkhla, Yala, Narathiwat and Pattani provinces
Brunei-Indonesia-Malaysia-Philippines - East ASEAN Growth Area (BIMP-EAGA, also called EAGA, or East ASEAN Polygon)	Brunei	Brunei
	Indonesia	East and West Kalimantan, and North Sulawesi
	Malaysia	Sarawak, Sabah, Labuan
	Philippines	Mindanao and Palawan

Source: East Asia Analytical Unit (1995).

In ASEAN, the growth triangle concept has captured increased interest in recent years as a means of accelerating economic development through subregional cooperation. This is part of the broader process of economic liberalisation underway in ASEAN and also reflects enhanced political cooperation between member countries. ASEAN countries increasingly recognise their shared interests in, and the benefits of, economic cooperation. In addition to those listed in Table 1.1, other growth triangle initiatives have been proposed for South East Asia, notably the Greater Mekong Growth Area. (See Appendix 1 for details.)

⁶ The Indonesian province of West Sumatra is also shortly to join the IMT-GT.



Growth triangles are a recent phenomenon and statistical data and empirical information on their operation is limited. Discussion of conceptual issues also is complicated by the differences in objectives and approaches between the various actual and proposed growth triangles, which make generalisations difficult. For some recently established growth triangles, cooperation remains more a promise than a reality.⁷

DEFINITION

Growth triangles consist of geographically proximate areas of three or more countries where differences in factor endowments (such as the availability of land, labour and capital) create economic complementarities. These economic complementarities can be exploited to gain a competitive edge in promoting external trade and investment for the mutual benefit of the participating countries.⁸ They link ‘areas that economics would naturally have brought together, but that politics has kept apart’.⁹

Growth triangles also are known as subregional economic zones, natural economic territories, extended metropolitan regions and transnational economic zones, or by geometric terms such as growth quadrangles, polygons or circles of growth. None of the terms has any official status.

CATEGORIES OF GROWTH TRIANGLES

Chia and Lee (1993) distinguish three different types of growth triangles, each with different motivating factors, but which may in practice overlap. These are:

- metropolitan spillover into the hinterland
- joint development of natural resources and infrastructure
- common geopolitical interest and geographic proximity.

Metropolitan Spillover into the Hinterland


This type of growth triangle is essentially a ‘growth pole-spillover phenomenon in a transnational context’.¹⁰ It encompasses a core and a periphery (or metropolitan centre and hinterland) separated by political boundaries. The centre is characterised by well-developed infrastructure, strong industry sectors, well-trained labour and generally a more advanced stage of economic development. Rapid economic development in the core can increase business costs and raise constraints such as land or labour availability. In a natural

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⁷ The following discussion of conceptual issues is based largely on the work of the ADB and *The Economist* 1993, ‘The geometry of growth’, 26 September, p. 29.

⁸ Adapted from Tang, Min and Thant, Myo 1994, *Growth Triangles: Conceptual and Operational Problems*, p. 2.

⁹ *The Economist* 1993, , p. 29.

¹⁰ Bergsten, C. Fred and Nolan, Marcus (eds) 1993, *Pacific Dynamism and the International Economic System*, p. 234.



response, some businesses (particularly those in labour or land-intensive industries) may move to less developed areas in the adjacent hinterland with abundant land and/or labour in order to maintain international competitiveness.

Metropolitan spillovers are primarily investment and export driven. Therefore, this type of growth triangle is promoted mainly by the private sector responding to market forces or through specific government facilitation. This mutually benefits both the core and the periphery: the core can access resources and the periphery's development is accelerated through increased capital flows and access to technology and management expertise.

The Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT) is this type of growth triangle. Singapore is the core and Johor state in Malaysia and Indonesia's Riau and West Sumatra provinces are the periphery. The IMS-GT experience shows how this type of growth triangle can expand from the original participating areas.

In North East Asia, the Hong Kong and Taiwan development spillover into southern China is also an example of this type of growth triangle. This area is sometimes referred to as the Greater Southern China Economic Area.

Joint Development of Natural Resources and Infrastructure

Subregional cooperation can arise from a desire to cooperate in infrastructure development and to use shared natural resources. Development projects that are multi country in scope include transportation and communications networks and water resource management schemes.


Similarities in resource endowments can strengthen collaborative development. Cooperation can minimise disputes over the ownership and use of natural resources and improve efficiency by exploiting economies of agglomeration. Here, economic complementarity is not as important a motivating force as in metropolitan spillovers.

The Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) is this type of growth area, and the mutual interest is particularly in infrastructure development. In Indochina, the Greater Mekong proposal (comprising Vietnam, Laos, Cambodia, Thailand, Myanmar and Yunnan province of China), which is supported by the Asian Development Bank and other international aid organisations, is another example of this type of cooperation.

Common Geopolitical Interests and Geographical Proximity

Geographical proximity and a common interest in economic development can promote an active economic interchange within a subregion. Cooperation can enhance the attractiveness of each location - to local and foreign investors - by exploiting economies of scale. This is done by providing access to complementary factors of production or natural resources, and through improving the investment climate for business more generally.

In many cases, geographical proximity and ethnic and cultural ties have led traditionally to active economic interchange, but this has been limited by the



imposition of political boundaries. Growth triangles therefore revive old trade routes and forge new ones.¹¹

The creation of a particular growth triangle may formally recognise these traditional ties and ongoing ‘unofficial’ trade, or be an attempt to promote them for national strategic reasons. This type of growth triangle can develop lagging regions as part of government efforts to balance national development and more equitably distribute the benefits of growth.

Despite the considerable distances between geographical components, the BIMP-EAGA best fits this conceptual framework in ASEAN, although there is also interest in the area in joint infrastructure and natural resource development. The Tumen River Growth Area on the borders of China, North Korea and Pacific Russia is another such zone.

KEY CHARACTERISTICS

Recent studies of growth triangles identify several major driving forces, or key characteristics, for their successful development. The ADB, in particular, has recently undertaken an extensive analysis of the development of, and prospects for, growth triangles.¹² The key characteristics of growth triangles are:

- economic complementarity
- geographical proximity
- political commitment
- infrastructure.

These key characteristics are present to a varying extent in all three South East Asian growth triangles examined in this study, although the physical characteristics and stages of development of the areas involved vary greatly.

Economic Complementarity


Economic complementarity is a key factor, as it provides the underlying logic for attracting the interest of the private sector. Economic complementarity between the subregions involved is most evident in the IMS-GT and least apparent in the BIMP-EAGA.

Economic complementarity arises from differences in:

- factor endowments such as land, natural resources, labour, technology and capital;
- trade and investment patterns; and/or
- levels of economic development, with the associated access to technology, infrastructure and services, quality and experience of personnel and management expertise.

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¹¹ *The Economist* 1993, p. 29.

¹² See especially Thant Myo, Tang Min and Hiroshi, Kakazu (eds) 1994, *Growth Triangles in Asia: A new Approach to Regional Cooperation*.



Each area in the subregion has different comparative advantages which create scope to improve subregional competitiveness through cooperation, to attract foreign and domestic investment (for example, by offering a comprehensive and integrated locational package to investors) and to promote exports.

Factor price differentials, for example in land and labour need to be sufficiently large to attract investment and to make economic cooperation mutually beneficial for the countries involved. In addition to competitive cost structures, administrative and bureaucratic efficiency is also important, if growth triangles are to compete for foreign and domestic investment.

Complementarities are not necessarily limited to the areas that are physically part of the growth triangle. Capital is now very mobile across borders and maybe sourced largely from outside the triangle. Technology transfer can also occur quite readily between developed and developing countries. Many firms in growth triangles are also export-oriented, depending on external rather than internal markets. These trends in international factor mobility and market access can reduce the importance of economic complementarity within the growth triangle.¹³

Geographical Proximity

Geographical proximity is defined loosely in the ASEAN growth triangles. The IMS-GT covers a relatively small area, while the component areas of the BIMP-EAGE are widely separated.

Despite advances in transport and telecommunications technology, geographical proximity is still important. In the provision of services, it facilitates the movement of people and allows regular interpersonal interaction. In manufacturing, it facilitates flexible production systems with shorter lead times, which are part of globalised production.


Furthermore, geographical proximity often is associated with historical ties and similarities in language and culture, which are conducive to better mutual understanding and business relationships.¹⁴

Political Commitment

Government commitment to, and active support for growth triangles is a key success factor. Although the private sector drives growth, governments also play a key role, both in facilitating the development of links and in initiating cooperation. For example, governments can endorse and support agreements and frameworks for joint development, and can jointly promote public sector investment projects. This creates scope for new types of partnerships and collaboration between the public and private sectors to promote subregional development.

The public sector needs strong political will and sustained commitment if governments at all levels - central, state and local - are to develop and implement

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¹³ Thant Myo, Tang Min and Hiroshi, Kakazu (eds) 1994, p. 11.
¹⁴ Thant Myo, Tang Min and Hiroshi, Kakazu (eds) 1994, p. 13.



supportive policies. Different levels of government must delineate clearly their different responsibilities.

Supportive government policies include facilitating the flow of goods and services through trade and investment liberalisation, simplifying employment regulations, and easing controls on the movement of labour and foreign exchange. Policies may need to be coordinated to be compatible with regional development strategies. Therefore governments must be willing to forego some degree of national sovereignty and adopt policies that are outward-oriented and responsive to the changing areas of comparative advantage.

Infrastructure

A high standard of infrastructure, such as telecommunications and transportation facilities (roads, ports and air ports) is important if the advantages of geographic proximity are to be realised and operating costs are to be kept competitive. In addition, other types of infrastructure such as water, power and industrial facilities are required to create an economic environment conducive to the development of a growth triangle.¹⁵ Developing and maintaining infrastructure must keep pace with the evolving needs of business, particularly if a significant level of private sector investment is to be attracted to growth triangles. This will largely be the responsibility of government, either directly overseeing infrastructure installation and operation, or coordinating private sector participation in this sector.

PRIVATE SECTOR INTEREST

Growth triangles must be primarily market driven. They have to make economic sense and be attractive to business. This provides an impetus for their development, and ensures they are developed on a sustainable, commercial basis and are internationally competitive. Once the characteristics discussed above are established, the key to the development of growth triangles is the degree to which they can attract and retain private sector interest through domestic and foreign investment inflows.

COMPARISON WITH EXPORT PROCESSING ZONES

Growth triangles are different from export processing zones. The main difference is that a growth triangle involves parts of different national economies, while an export processing zone is part of only one economy. As a result, growth triangles combine 'the resources of advanced and less advanced economies, integrating the availability of capital, technology and human resources, with the availability of land, natural resources and labour'.¹⁶

This combination of low priced resources generally is not available in one country, so growth triangles are potentially more competitive in attracting

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¹⁵ Tang, Min and Thant, Myo 1994, *Growth Triangles: Conceptual and Operational Problems.*, p. 13.
¹⁶ Bergsten, C. Fred and Nolan, Marcus (eds) 1993, p. 237.

foreign investment than export processing zones. However, the distributional and policy coordination issues associated with growth triangles are far more complex than those of export processing zones, and if not carefully managed can outweigh these potential advantages.

A number of growth triangles either have (or will have) export processing zones located within their boundaries. Although these can be used to attract investment to a specific growth triangle, the zone operates separately as part of a particular country's activities.

Although growth triangles are distinct from export processing zones (or special economic zones), there are similarities in the underlying motivations for their establishment and in some of the key characteristics for success.


Many countries, particularly in South East Asia, developed export processing zones to promote export-oriented industrialisation. These are administratively distinct and specifically designated industrial areas that are given special treatment under government policy in order to attract foreign investment, particularly in manufacturing for export.

CHARACTERISTICS OF EXPORT PROCESSING ZONES

An export processing zone commonly:

- operates outside the country's normal customs barriers. It provides an avenue for dual trade regimes whereby complete liberalisation (in the zone) can coexist alongside tariff protection (in the rest of the country). Firms in the zone can import their inputs without paying tariffs or duties, provided the product is re-exported, capital equipment can also enter duty free.
- gives foreign (and local) investors in export processing zones preferential treatment over investors in other parts of the country through such incentives as tax holidays, lower tax rates, higher than normal (up to 100%) foreign equity and minimal restrictions on repatriation of profits and access to foreign-exchange.
- has simplified bureaucratic regulations and requirements for investment approval and implementation to encourage foreign investment.
- is well-located, close to a major metropolitan centre, port and/or airport.
- is a delimited area with a limited capacity and relatively small space ensuring in most cases that it is not overly important at a national level either in terms of employment or production.
- has good quality infrastructure and industrial facilities often supplied by governments.¹⁷

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¹⁷ Bergsten, C. Fred and Nolan, Marcus (eds) 1993.



In the past two decades East Asian export processing zones have attracted large amounts of foreign direct investment.¹⁸ They may also offer clear foreign investment policies institutionalised by government with formalised equity and profit repatriation rules, duty-free imports of goods, simple and timely customs clearance of goods, minimal regulatory controls and efficient zone management. The availability of well-established infrastructure and sound management are other key factors in attracting investment.

In the early stages, labour intensive light manufacturing usually dominates export processing zones. As these zones and the surrounding countries mature, however, the level of labour-intensity gradually declines and capital intensity increases. In addition, links between the zones and the domestic economy improve as access to the domestic market becomes increasingly important to foreign investors. As deregulation, particularly trade and investment liberalisation, makes the national economies more outward-oriented, the importance of export processing zones appears to wane.¹⁹

OUTLOOK

Growth triangles are still at a very early stage of development, and significant differences exist between ASEAN's growth triangle initiatives. The experience in one growth triangle will not necessarily replicate that of others, although basic supporting factors need to be present. The development of growth triangles has strong underlying economic logic; however, it is not yet clear how well the underlying theories will translate into reality. Some of these major issues that ASEAN governments will face in implementing growth triangles are discussed in Chapter 6.

The concept of growth triangles is a dynamic one. Their geographic composition may change as areas graduate in and out of different growth stages. Some growth triangles will be slower to develop than others. While past patterns of economic development will shape future patterns of growth, the potential exists for some areas in growth triangles to 'take-off' economically, provided the right factors are present. The three major growth triangle initiatives in ASEAN analysed in chapters 3 to 5, have remarkably different characteristics, particularly in relation to the concepts outlined in this chapter above.

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¹⁸ Ying Zhu 1994, 'The Functions of Special Economic Zones in East Asian Development', p. 17.

¹⁹ Ying Zhu 1994, p. 18.



Chapter 2

SOUTH EAST ASIA'S ECONOMIC DYNAMISM

Analysis of the economic underpinning of the three major South East Asian growth triangles necessarily involves an assessment of the economic characteristics and performance of the ASEAN countries which constitute their members. This examination is essential to understand the underlying economic forces generating growth in the countries participating in the major South East Asian growth triangles, their economic strengths and weaknesses and therefore the potential benefits they and foreign investors, including Australian companies, could derive from growth triangle arrangements.

OVERVIEW

In the 1990s, the major economies of South East Asia continued to be among the fastest growing in the world. The economies of ASEAN, in particular, are generally strong performers, as Table 2.1 shows.¹

Table 2.1

ASEAN^a: Real GDP Growth Rates, Per Cent

	1980	1985	1990	1991	1992	1993	1994
Indonesia	7.9	2.6	7.2	6.9	6.5	6.5	7.3
Malaysia	7.5	-1.1	9.8	8.7	7.8	8.3	8.7
Philippines	5.3	-4.5	2.7	-0.8	0.3	1.4	4.5
Singapore	9.7	-1.8	8.4	6.7	6.0	9.9	10.1
Thailand	4.7	3.5	11.6	8.1	7.6	8.2	8.4
Vietnam	-	-	5.4	6.0	8.7	8.1	8.8

Note: a Excludes Brunei

Source: Asia Pacific Economics Group (1995).

ASEAN's sustained strong economic performance in the early 1990s was fuelled by expanding trade and investment flows. Such flows are private-sector driven but were encouraged by the adoption of more open economic policies during the

¹ ASEAN's current members are Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam (since July 1995). Laos, Cambodia and Myanmar (Burma) are expected to join ASEAN in the short to medium term.

process of export-oriented industrialisation. Growth triangles aim partly to increase the momentum of economic liberalisation in ASEAN and encourage further foreign direct investment inflows. They also seek to encourage greater decentralisation of growth and to build on existing trade and investment patterns, particularly intensifying intra-ASEAN (and intra-regional) trade.

Economic Diversity

ASEAN is a diverse grouping. Significant differences exist in the level of economic performance of member countries. (See Table 2.2.) The most developed country, Singapore, has a per capita income more than 100 times that of the least developed, Vietnam. Indonesia has by far the largest share of ASEAN's population at 46 per cent but accounts for only 31 per cent of GDP and 16 per cent of exports. In contrast, Singapore, with less than one per cent of ASEAN's population, accounts for almost 40 per cent of exports.²

Table 2.2

ASEAN^a: Key Economic Indicators, 1994

	GDP (US\$ bill)	GDP growth (%)	Population (million)	GNP per capita (US\$)	Merch'ise exports (US\$ billion)	Merch'ise exports/ GDP (%)	Current Account Balance/ GDP(%)
Indonesia	163.8	7.3	192.2	795	40.0	24.4	-2.3
Malaysia	70.0	8.7	19.5	3406	55.2	78.9	-6.5
Philippines	61.6	4.5	67.2	952	13.4	21.8	-5.2
Singapore	70.2	10.1	2.9	24 425	98.2	139.9	11.5
Thailand	140.3	8.4	61.5	2343	43.5	31.0	-6.0
Vietnam	16.0	8.8	72.5	182	3.6	22.5	-6.9

Note: a Excludes Brunei

Source: Asia Pacific Economics Group (1995).

In terms of traditional, non-purchasing power parity measures of GDP, individual ASEAN economies are small. In total, ASEAN accounts for about two per cent of the world economy. This share, however, is rising as these economies consistently outperform economies elsewhere and as ASEAN incorporates new members.³

The structure of individual ASEAN economies makes them broadly competitive rather than complementary, although rapid economic growth and structural change have created greater diversity and increased economic complementarities in some areas. The latter have emerged as a result of growing gaps between some ASEAN countries in labour costs and differences in factor endowments, such as

² This is partly because of the large element of entrepot trade.

³ For a more extensive discussion of ASEAN's economic performance in the 1980s, see East Asia Analytical Unit 1992, *Australia's Business Challenge: South East Asia in the 1990s*.

the availability of land, labour, capital and technology. ASEAN governments have sought to capitalise on these differences through economic cooperation initiatives at a subregional level.

MEASURING THE SIZE OF ECONOMIES

Traditional measures of the size of economies, or Gross Domestic Product (GDP), are based on a country's GDP converted into US dollars at market exchange rates. However, exchange rates rarely reflect accurately differences in price levels in various countries. So the International Monetary Fund has calculated the size of economies using purchasing power parities (PPP), which take into account differences in price levels. Using this measure, the relative importance of developing country economies increases sharply: for example, Asia's share of world output in 1990 rose from seven per cent using traditional measures of GDP to over 17 per cent using PPP.

Recent Economic Performance

Although growth in ASEAN economies slowed in the early 1990s, growth was still higher than in most other parts of the world economy. The sharp slowdown in the world economy, lower foreign direct investment inflows from North East Asia, and domestic infrastructure and skilled labour constraints contributed to ASEAN's slower economic growth.


This slowdown, however, was short-lived. In 1994 and 1995, growth in the major ASEAN economies recovered, largely in response to stronger external demand arising from recoveries in major export markets, especially the USA, and strong import growth in East Asian economies. Increased domestic demand, mainly due to expanded public and private sector expenditure, also contributed to growth.

Structural Change

The process of structural change in ASEAN economies, which accelerated in the 1980s, continued to gain momentum in the 1990s in line with changing areas of comparative advantage.

In **Singapore** during the 1980s, the manufacturing sector began to shift from low value-added, labour intensive production to higher value-added, more technologically sophisticated products and services, particularly in the electronics industry. This process continued into the 1990s. Singapore is becoming an important financial and business centre for South East Asia, and retains its role as a major transport hub. It also has begun an ambitious drive to build an 'external wing' to its economy. As part of a regionalisation strategy, it is encouraging companies to invest abroad, taking advantage of the low-cost labour and abundant resources of nearby parts of South East Asia.

In **Malaysia** and **Thailand**, export-orientated growth strategies and sound macroeconomic, human resource and infrastructure provision policies have encouraged large-scale inflows of foreign direct investment. Domestic and foreign investment has been attracted to labour intensive, export-oriented



manufacturing industries, particularly electronics and textiles, encouraging structural change by reducing the past reliance of these economies on commodity production. Rising production costs, especially of unskilled and semi-skilled labour, and growing competition for investment from other economies in the region, has prompted Malaysia to concentrate on developing higher value-added and more technology intensive manufacturing sectors, and on strategies to diversify and deepen its industrial base. While wage levels are lower in Thailand, similar pressures for industrial upgrading are developing in that economy. Domestic demand also plays an increasingly important part in sustaining high levels of growth in these economies.

In **Indonesia**, the oil and gas sector remains important, but diversification into labour intensive manufacturing has continued into the 1990s, especially in the footwear, clothing and electronic goods industries. The manufacturing sector almost doubled its share of GDP between 1980 and 1994, becoming more important than traditional commodities and the oil and gas industries. Service industries, particularly in tourism, are expanding. Indonesia's large reserves of labour create considerable scope for the continued expansion of low-cost, labour intensive manufacturing industries. To help these remain competitive, the government is beginning to focus on the need to reduce regulatory impediments and improve productivity levels.


In the **Philippines**, after decades of disastrous economic management, trade and investment policy reforms and economic stabilisation measures implemented in the early 1990s are now promoting economic growth and revitalising the economy. Export-oriented manufacturing, particularly of garments and electronics, is expanding in line with policy reform measures and the consequent recovery in domestic and foreign investment. Traditional agricultural and food processing industries retain an important role in the economy.

In **Brunei**, the economy depends heavily on the oil and gas sector. Oil and gas revenue is funding large increases in government spending on physical infrastructure, stimulating growth in the construction and service industries. The non-oil sectors, particularly import replacing industries such as domestic food production and manufacturing based on processing local natural resources, are being developed. However, they continue to operate at the margins of the economy.

In **Vietnam**, ASEAN's newest member, GNP per capita is less than one quarter of Indonesia's or the Philippines'. Vietnam's status as one of Asia's least developed countries, and its continuing socialist orientation set it apart from other ASEAN countries. Nevertheless, market-oriented economic reforms and increasing inflows of aid, international financial institutional lending and foreign direct investment, the latter attracted by a well educated, trained, disciplined low-cost labour force and abundant natural resources, have spurred economic growth to sustained high levels in recent years. Although the agricultural sector still accounts for up to 80 per cent of employment, its contribution to GDP is falling steadily, as the share of manufacturing and services rises.

Deregulation

Progress in structural change and further economic development in ASEAN depend mainly on continuing microeconomic and trade reforms. To achieve



these reforms, trade barriers and investment restrictions that limit efficiency and productivity need to be progressively removed. Over the past two decades, ASEAN governments have adopted economic liberalisation measures that were largely export-oriented and have underpinned investment and trade growth and promoted rapid structural change. At the same time, except for Singapore, most ASEAN countries still protect significant parts of their domestic economies.

Growth triangles, which offer scope for new approaches to economic liberalisation and cooperation at a subregional level, can provide opportunities for discrete experiments with more liberal and open economic environments in ASEAN, without requiring wholesale liberalisation which governments may consider politically and economically untenable at this stage.

The increasing competition for foreign investment will be an important stimulus to further deregulation in ASEAN. For example, early in 1995, both Indonesia and Malaysia announced major new economic liberalisation packages, apparently at least partially in response to concern that China and other large Asian countries may attract foreign investors away from their economies. Ongoing deregulation will be important in driving economic development in growth triangles by removing many existing growth constraints and promoting trade and investment flows.

TRADE AND INVESTMENT

ASEAN countries benefit from a relatively open international trade regime and expanding world trade. Their access to export markets and to cheaper and more diverse imports has improved greatly.

In the early 1990s, ASEAN sustained strong trade growth, driven mainly by export-oriented liberalisation policies which encouraged high levels of foreign investment. This supported strong growth in manufactured exports, and machinery and components imports and promoted regional economic integration in East Asia.

Although the individual economies are small, ASEAN countries increasingly are significant exporters and importers, both in regional and world terms. For example, in 1993 ASEAN's merchandise exports accounted for nearly seven per cent of world exports. Singapore ranked ninth as an exporter of goods (up from twenty-sixth in 1980); Malaysia ranked thirteenth (up from fortieth); Thailand ranked nineteenth (up from forty-eighth); Indonesia ranked twentieth; and the Philippines ranked thirty-third.⁴

Exports

During the 1970s and 1980s, ASEAN's share of world exports more than doubled. This trend continued into the 1990s as growth in exports from ASEAN countries far exceeded rates achieved elsewhere in the world economy. Table 2.3 shows the sustained strong export performances of most of the ASEAN countries in the

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⁴ GATT 1995, *International Trade: 1994 Trends and Statistics*, p. 12.

1990s. The composition and pattern of ASEAN exports have changed dramatically over this period.

Table 2.3

ASEAN^a: Annual Export Growth, Per Cent

	1980	1985	1990	1991	1992	1993	1994
Indonesia	23.8	-6.5	16.7	10.5	14.0	8.3	9.3
Malaysia	16.8	-7.2	16.0	16.9	16.8	15.6	20.3
Philippines	25.7	-14.1	5.1	7.3	9.1	15.6	20.5
Singapore	36.1	5.4	17.9	12.0	7.6	17.0	32.3
Thailand	28.7	-3.8	15.2	24.1	13.4	13.4	19.5
Vietnam	-	-	15.9	46.1	19.2	21.0	22.0

Note: a Excludes Brunei

Source: Asia Pacific Economics Group (1995).

In the 1990s, exports grew as ASEAN countries developed internationally competitive manufacturing bases. Although the extensive natural resource bases of many ASEAN countries provide a firm foundation for exports, there has been a strong shift away from traditional commodity exports, initially to labour intensive manufactures, but now in some ASEAN economies like Singapore and Malaysia to more skill and capital intensive manufacturing exports. For example:

- between 1989 and 1994, the share of manufactures in Malaysia's exports increased from just over 50 per cent to nearly 80 per cent
- between 1989 and 1994, the share of manufactures in Indonesia's exports rose from less than half to nearly two-thirds
- between 1989 and 1994, the share of manufactures in Thailand's exports rose from just over 60 per cent to about 70 per cent.

ASEAN export destinations have diversified. The USA remains a major export market for most ASEAN countries. Japan is also an important export market, although its share of total exports has fallen during the 1990s, due to slow economic growth in Japan. The share of ASEAN's exports going to the NIEs (Taiwan, Hong Kong and South Korea, collectively known as Newly Industrialising Economies or NIEs) has increased significantly in the 1990s, mainly in response to growing demand and stronger intra-industry ties; this contributed to the resilience of ASEAN's exports.

Intra-ASEAN exports as a share of total exports (20.7 per cent in 1994) have remained fairly constant since 1985. High tariff barriers and competing natural resource endowments and exports have restricted intra-ASEAN trade. In addition, intra-ASEAN exports as a share of total exports may be exaggerated as Singapore accounts for a large proportion of this trade, much of which is re-exported. (See Table 2.4.)

Table 2.4

ASEAN: Direction of Exports, Per Cent

	1980	1985	1990	1994
Japan	29.7	25.4	19.1	15.6
North-East Asia ^a	5.9	7.6	12.1	14.7
United States	16.4	19.7	19.8	20.3
Other ASEAN	18.2	19.4	19.5	20.9
Australia	2.0	2.0	1.9	1.9
Other	27.8	25.9	27.6	26.6

Notes: ^a South Korea, Taiwan, Hong Kong, China

Source: International Monetary Fund (1994).

ASEAN governments hope that regional growth triangles will expand ASEAN's exports through exploiting complementary factor endowments. Reflecting broader trade patterns, most of the growth in exports of manufactures from growth triangles is likely to be to destinations outside ASEAN, principally the USA, Japan and the NIEs.

In some sectors, intra-ASEAN trade will accelerate as multinational companies seek to take advantage of economic complementarities by vertically integrating regional manufacturing operations. This will occur as production is globalised. Falling ASEAN trade barriers including those in successful growth triangles, will encourage this process.

GLOBALISATION OF PRODUCTION

By globalising production, companies expand their activities through making foreign direct investments and establishing manufacturing and sales bases in several countries. Different production processes occur in different countries to promote international cost competitiveness. For example, labour intensive processes are carried out in labour-abundant, low labour cost areas, while higher value-added, more technologically-sophisticated processes, such as research and development, take place in more developed countries, where these skills are in relative abundance.

Globalised production is partly the result of technological innovation, for example, reducing distance-related transaction costs from transport and communication. Also, the flow of goods and services between subsidiaries of multi-nationals, or single companies in different countries, has also promoted further regional economic integration in East Asia.⁵

⁵ Goto, F., Irie, Kazutomo and Sooyama, Akihito 1990, *The Current Situation and Prospects for Regional Economic Integration*, pp. 31-35.

Imports

Import growth, especially of capital equipment and intermediate goods, which increases output and exports, has also contributed to economic growth in ASEAN. Imports of capital goods are particularly important as they introduce new technology. Imports of intermediate goods, mainly components for assembly, have increased in line with expanded foreign direct investment inflows.

Japan continues to be the source of a large and increasing share of ASEAN's total imports, as are the NIEs. (See Table 2.5.) The latter reflects the increasing complementarity of ASEAN and the NIEs. The share of ASEAN's imports supplied by the USA declined slightly in the 1990s.

As intra-industry trade expands in the 1990s, the share of ASEAN's imports accounted for by other ASEAN countries and the NIEs is also likely to increase. Multinational companies are encouraged by reduced trade barriers and are likely to integrate their activities across South East Asia.

Growth triangles may contribute in the period prior to full liberalization by encouraging specialisation of different parts of the production process on the basis of the comparative advantages of different ASEAN economies.

Table 2.5

ASEAN: Sources of Imports, Per Cent

	1980	1985	1990	1993
Japan	21.9	20.8	21.3	24.6
North-East Asia ^a	6.1	8.7	11.8	13.3
United States	15.4	15.7	13.4	15.2
Other ASEAN	18.0	19.7	14.5	17.0
Australia	3.0	3.0	3.0	3.0
Other	35.6	32.1	36.0	26.9

Notes: ^a South Korea, Taiwan, Hong Kong, China

Source: International Monetary Fund (1994).

Foreign Direct Investment

As discussed previously, high levels of foreign direct investment underpin ASEAN's economic development and are linked closely with strong trade growth over the past two decades. This investment plays a major role in ASEAN's economic development by augmenting capital resources, but more importantly by transferring technology, marketing and management expertise, which has stimulated the growth of productivity, employment and output, and in particular, exports. In Singapore, for example, in 1993, foreign-owned companies accounted for about 85 per cent of the manufacturing sector's direct exports. Foreign direct investment in ASEAN countries has taken place in a wide range of industries, including textiles, electronics, footwear, chemicals, mining and timber processing.

These investment flows have come mainly from Japan and the NIEs and have been a response to exchange rate appreciation and rising production costs in these economies. These forces prompted industrial relocation to ASEAN and other lower cost economies in the 1980s and 1990s. More liberal domestic investment climates, strong efforts to attract investment and access to rapidly growing domestic markets also drove investment in many sectors of ASEAN economies.

The future of growth triangle initiatives in ASEAN will depend largely on whether the triangles attract high levels of foreign direct investment.

Table 2.6

Foreign Direct Investment Inflows to ASEAN, US\$ billion

	1985	1990	1991	1992	1993	1994
Indonesia	0.3	1.1	1.5	1.8	2.0	4.0
Malaysia	0.7	2.3	4.0	5.2	5.2	5.1
Philippines	-	0.5	0.5	0.2	0.8	1.7
Singapore	1.0	5.6	4.9	6.7	6.8	5.5
Thailand	0.2	2.4	2.0	2.1	1.7	2.2
Vietnam	-	0.5	1.2	1.4	3.2	3.8


Source: Asia Pacific Economics Group (1995); UN World Investment Report (1994).

THE TRADE IMPACT OF FOREIGN DIRECT INVESTMENT

Foreign direct investment contributes to strong regional networks between the investing economies, mainly Japan and the NIEs, and ASEAN economies, *inter alia* through the flows of goods, services and people. The main trade effects are:

- export generation, including additional sales of finished goods, components, raw materials or capital equipment from the investing economy, whether by the investing firm or other firms;
- import generation, where the foreign subsidiary begins to export components or finished products back to the market of the parent company; and
- export displacements, which result if output from an overseas subsidiary replaces exports from the parent company's factories, or exports from a competitor in the investing country, or exports from another affiliated company, either in the local market or in a third country market.⁶

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⁶ Robertson, David 1972, 'The Multinational Enterprise, Trade Flows and Trade Policy', quoted in East Asia Analytical Unit 1992, p. 51.



Inflows of foreign direct investment slowed in several ASEAN countries in the early 1990s, responding mainly to domestic constraints (lack of infrastructure and skilled labour shortages), and a less favourable external environment with slower economic growth in Japan and the NIEs and competition from China for foreign direct investment. However, in 1994, foreign direct investment recovered strongly as the NIEs took a stronger investment role in ASEAN. (See Table 2.6.) Governments in ASEAN view growth triangles as a way to attract foreign investors by capitalising on geographical proximity and economic complementarities.

Foreign Investment Activities of ASEAN Countries

Foreign direct investment by ASEAN countries has expanded recently, although from a small base. Singapore is the major investor: between 1981 and 1993, Singapore's outward investment increased almost eight-fold to over US\$8.0 billion. Other ASEAN countries are the main recipients of Singapore's outward investment; combined with other East Asian countries, they accounted for over 45 per cent of Singapore's foreign direct investment in 1993.

- Malaysian business also has invested abroad. Other ASEAN countries received about 23 per cent of total Malaysian investment abroad between 1988 and 1993,
- Thai investment abroad also is increasing: in 1994 it totalled \$US408 million. ASEAN received the largest share of this (21 per cent), followed by the USA (17 per cent). Thai investment is diversifying into China (16 per cent in 1994) and Indochina (6 per cent).


This foreign direct investment is the product of rapid structural changes occurring in ASEAN countries. The trade consequences of this investment, while currently weak, are likely to intensify over the remainder of the 1990s, encouraging closer ASEAN economic integration. The establishment of growth triangles in South East Asia is likely to encourage intra-ASEAN investment, for example as Singapore and Malaysia increasingly shift labour intensive manufacturing to less-developed and geographically proximate areas of other ASEAN countries.

Aid Inflows

Indonesia and the Philippines are the largest ASEAN aid recipients, although Thailand and Malaysia have attracted substantial aid. ASEAN's least developed member, Vietnam, is now a major bilateral and multilateral aid recipient.

The dependence of most ASEAN countries on foreign aid is decreasing. Nevertheless, aid inflows are an important source of foreign capital inflow and finance a significant percentage of imports for Indonesia, the Philippines and Vietnam. They finance physical infrastructure projects, support human resource development through improved health and education, and upgrade technology.

Japan has supplied the largest component of total aid inflows to ASEAN in recent years. Other important donors include the World Bank and the Asian Development Bank (ADB).



In Indonesia, total overseas development assistance has risen from about US\$4.0 billion in 1988 to US\$5.2 billion in 1994. In the Philippines, multilateral and bilateral aid donors committed US\$2.8 billion in each of 1994 and 1995.

International financial organisations and development assistance agencies have shown considerable interest in a subregional approach to development planning. The ADB is studying the development needs of several South East Asian growth triangles. The ADB's study of the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) is the furthest advanced.⁷ An ADB study of the BIMP-EAGA began in 1995.

ECONOMIC PROSPECTS

ASEAN economies are likely to remain among the fastest growing in the world for the remainder of the 1990s. Economic growth projections for ASEAN for this period range from six per cent to over eight per cent per annum.


Despite competition from other countries for the remainder of the 1990s, ASEAN is likely to attract foreign direct investment to support strong economic expansion and structural change. As mentioned previously, pressure for faster deregulation will come mainly through competition from China and possibly India, as those countries attract more global foreign direct investment. The resource wealth of many ASEAN countries also will help to underpin growth, while rapid technological change and technology transfer will promote structural change.

Export-oriented industrialisation in ASEAN should continue, although with greater emphasis on higher value-added and more skill and capital intensive manufacturing and services industries in countries such as Singapore, Malaysia and eventually Thailand. Labour intensive industries in these three ASEAN countries will be moved increasingly offshore or encouraged to relocate in regional areas outside the capital cities.

Indonesia, the Philippines and Vietnam still have considerable scope to expand natural resource based industries and labour intensive manufacturing. In these countries, emphasis is increasingly on improving productivity levels and enhancing the regulatory environment to remain competitive in attracting foreign direct investment.

Prospects for economic growth in ASEAN depend heavily on the continued expansion of major export markets, particularly the USA, Japan and the NIEs. In general terms, the global political and strategic environment should support growth in ASEAN countries. The global economic environment for the remainder of the 1990s, while not as favourable as that of the 1980s, will also support economic growth in ASEAN. In particular, a more open international trading regime will be important for ASEAN countries, particularly as they depend increasingly on exports.

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⁷ For example, see Thant Myo, Tang Min and Hiroshi, Kakazu (eds) 1994, *Growth Triangles in Asia: A New Approach to Regional Economic Cooperation*.



Domestic demand will become an increasingly important source of growth as ASEAN economies continue to expand and incomes rise. Rising per capita incomes also will support strong growth in consumer spending. Imports of consumer products will rise as the expanding middle class demands an increasingly sophisticated and diverse range of goods and services. By 2010, it is estimated that about 45 million people in South East Asia will have annual incomes above US\$5 000, compared with only six million in 1990.⁸ Imports of capital equipment, intermediate products and specialist services should also continue to grow strongly.

Challenges

The economic success of ASEAN countries generates new challenges, including infrastructure bottlenecks, particularly in transport, telecommunications and power. As a result, governments in ASEAN countries are implementing ambitious infrastructure development schemes. According to the ADB, the Asia Pacific region will have to spend at least US\$1 trillion on infrastructure between now and the end of the decade. Indonesia, Thailand and Malaysia should account for at least 20 per cent of this.⁹ High levels of public and private investment in infrastructure therefore will provide an important stimulus to growth.

Shortages of semi-skilled and skilled labour, land and other resources constrain growth and structural change, particularly in Singapore, Malaysia and Thailand. They also contribute to rising labour and other production costs and undermine traditional sources of comparative advantage.

Improvements in education and vocational training will be important in overcoming skilled labour constraints in the region. Shortages of and rising wages for unskilled labour will be overcome partly by relocating some lower value-added, labour intensive industries to neighbouring areas of South East Asia. Improved efficiency in allocating domestic resources through other means, such as developing growth triangles and reducing trade barriers also will help.


Some ASEAN governments face the challenge of reducing income and development disparities between rural and urban areas. Widening income disparities could undermine political stability. This is reflected, for example, in the Indonesian Government's interest in developing the lagging provinces of eastern Indonesia.¹⁰ Similarly, the Government of the Philippines is promoting the development of Mindanao.

Malaysia and Thailand also face the challenge of promoting economic development in poorer regions. The Thai Government, for example, has a formal decentralisation policy aiming to disperse infrastructural facilities and related

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⁸ East Asia Analytical Unit 1992, pp.86-87, based on Centre for International Economics, *Regional and Country Projections of Population, Income and the Distribution of Income by Age to the Year 2025*, Canberra, June 1992.

⁹ Political and Economic Risk Consultancy Ltd 1995, *Asian Intelligence*, 6 July, Issue 415, p. 2. For the region as a whole, the power and transport sectors will each require up to US\$350 billion; telecommunications US\$150 billion; and water supply and sanitation up to US\$100 billion.

¹⁰ For example, through the formation in 1993 of the Council for the Development of the Eastern Indonesia Region which comprises senior government ministers and is chaired by President Suharto.



networks away from Bangkok and the centre of the country. A Rural Development and Decentralisation Committee and a decentralisation fund have been established. The latter is to help finance activities in outlying regions although progress so far has been slow, and is likely to remain so.

Governments probably will continue to develop outlying regions through subregional economic cooperation initiatives such as growth triangles, although policy making and programs will remain focused on the main population centres in each ASEAN country.

REGIONAL ECONOMIC INTEGRATION

Intra-ASEAN trade and investment links are likely to intensify due to the restructuring of ASEAN economies, globalisation of production, increased foreign direct investment flows and falling trade barriers. In addition, these markets will expand more rapidly than many traditional export destinations, which means their relative share of trade will increase.

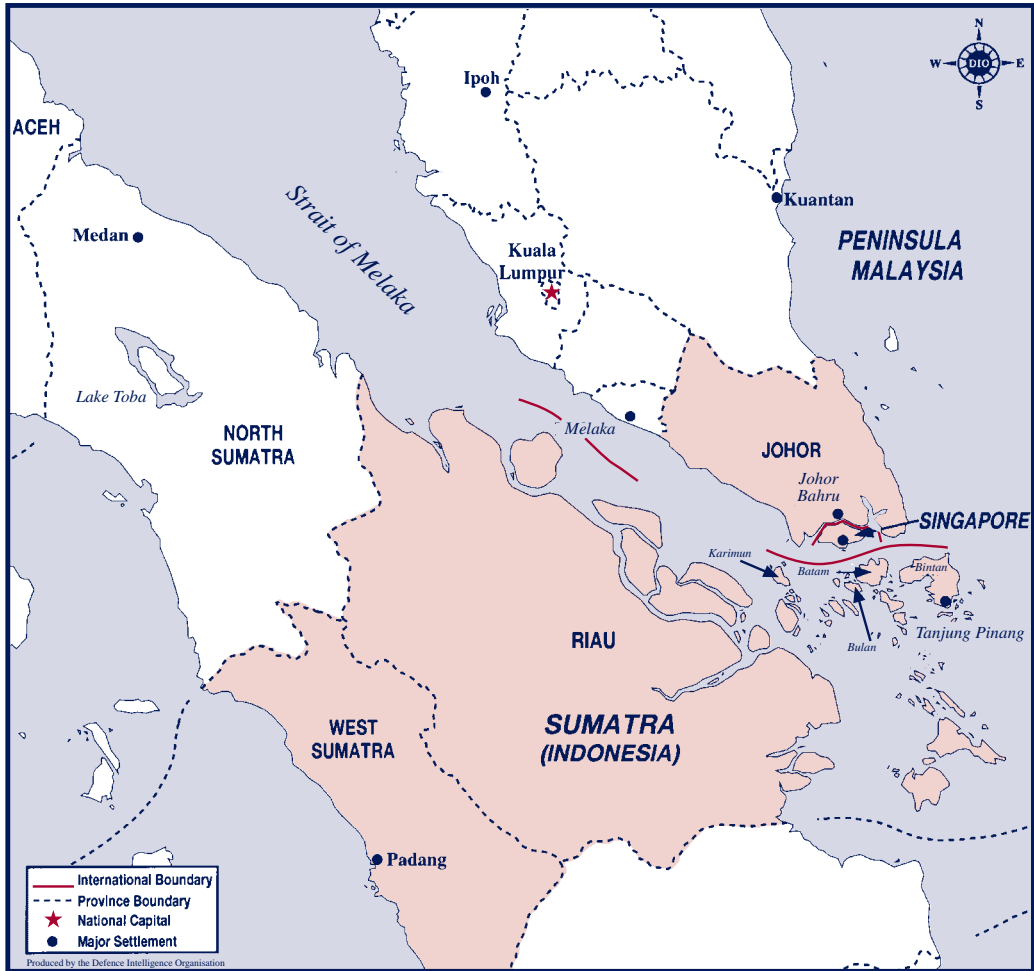
Governments promoting economic cooperation through initiatives such as growth triangles, recognise these important trade and investment trends and will give further impetus to regional economic integration. Subregional initiatives also will be used by ASEAN governments to promote continued high levels of foreign direct investment inflows in export-oriented manufacturing industries, by increasing economies of scale, exploiting complementarities and promoting vertical integration and regional specialisation in production. In this way, they will be encouraged by and in turn will support, broader efforts underway, for example, through APEC, to promote trade and investment liberalisation.

As intra-regional trade and investment links intensify, interest in economic cooperation initiatives has also increased. The Asia Pacific Economic Cooperation (APEC) forum, launched in Canberra in 1989, seeks to promote trade and investment liberalisation in the Asia Pacific region. In January 1992, ASEAN members agreed to form an ASEAN Free Trade Area (AFTA) to cover all manufactures and processed agricultural products. Over ten years from 1 January 1993, tariff rates will be reduced progressively to between zero and five per cent.¹¹

Regional economic integration within ASEAN will be both complicated and strengthened by the acquisition of new members. As discussed above, new member Vietnam, and likely members Laos, Cambodia and Myanmar, differ in important respects, economically, from ASEAN's long-standing members. On the other hand, due to the lower wage structures of these countries, there are strong economic complementarities between the long-standing ASEANs on the one side and the new or prospective members on the other. These could be a basis for economic cooperation initiatives, such as vertically integrated production or growth triangles.

The key conceptual issues underlying growth triangles are discussed in the following chapter.

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¹¹ For a discussion of AFTA, see East Asia Analytical Unit 1994, *ASEAN Free Trade Area: Trading Bloc or Building Block?*.



Indonesia – Malaysia – Singapore Growth Triangle

Chapter 3

INDONESIA-MALAYSIA-SINGAPORE GROWTH TRIANGLE

The growth triangle incorporating Singapore, the state of Johor in Malaysia and the provinces of Riau and West Sumatra in Indonesia was the first to be established in South East Asia. It has been widely discussed and evaluated in the 1990s as a model for cooperative economic development at a subregional level.

This growth triangle is known by various acronyms including: SIJORI (incorporating the first two letters of each of its original component areas - a term used by Indonesian Minister for Technology Habibie); JSR-GT (Johor-Singapore-Riau Growth Triangle - a term popular in Singapore); Nusa Tiga (a term used by the Johor Chief Minister); IMS-GT (Indonesia-Malaysia-Singapore Growth Triangle); or as the Southern Growth Triangle. This report uses the acronym IMS-GT.

Table 3.1

Basic Indicators for the IMS Growth Triangle, 1994

Indicator	Johor	Singapore	Riau ^a	West Sumatra ^a	Total
Area (sq. km)	18 914	641	94 562	49 778	163 895
Population (million)	2.3	2.9	3.7	4.2	13.1
GDP (US\$ million)	4 338	70 200	3 320	2 836	80 694
GNP per capita (US\$)	2 192	24 425	897 ^b	675 ^b	
GDP growth (% p.a.)	6.3	10.1	12.1 ^c	9.4 ^c	

Notes: a 1993; b GDP per capita; c 1987-91.


Source: Chia Siow Yue & Lee Tsao Yuan (1993); Johor Economic Planning Unit (1995);

Asia Pacific Economics Group (1995); Indonesian National Development Information Office (1994).

HISTORY

Riau-Singapore

Indonesian President Suharto and then Singaporean Prime Minister Lee Kuan Yew discussed prospects to develop jointly Batam island in Riau province in Indonesia in October 1989. The IMS-GT was first formally proposed by Singapore in December 1989 when the then Deputy Prime Minister of Singapore



Goh Chok Tong, stated that Singapore, Johor and Batam island should form a 'triangle of growth'.¹

In June 1990, President Suharto and Malaysian Prime Minister Mahathir officially endorsed the concept of the IMS-GT and agreed that the three areas should work together on mutually beneficial projects.²

The IMS-GT originally covered only Johor, Singapore and Batam, but in July 1990, a Presidential Decree extended Indonesia's involvement to include the entire province of Riau. The province of West Sumatra was formally included in IMS-GT by a Presidential Decree in May 1995.

In August 1990, Singapore and Indonesia signed a bilateral agreement to provide a framework for the joint development of Riau, and an investment guarantee agreement. In June 1991, they signed an agreement to develop jointly and share Riau's water resources.

Johor-Singapore

There has always been a high level of economic interaction between Johor and Singapore as they share a common colonial heritage and geographical proximity. Johor is a significant source of water and power for Singapore.

Singapore's separation from the Malayan federation in 1965 interrupted the easy relations, but by 1979, substantial economic links had developed again. A 1984 agreement endorsed cooperation between the Malaysian Industrial Development Authority (MIDA) and Singapore's Economic Development Board (EDB) to encourage industrial relocation and tourism between Singapore and Johor. In 1985, Malaysia's Finance Minister granted 'special case' status to Singaporean companies under Malaysia's New Economic Policy equity regulations.

In 1988, the Johor State Government announced a policy of 'twinning' with Singapore: Singapore's labour intensive industries would relocate to Johor to help build up its industrial base. This promoted a particularly strong growth in ties as Singapore's labour intensive manufacturing companies moved to Johor to enhance their international competitiveness through lower production costs.³ Johor is particularly keen to attract high technology and IT-related manufacturing from Singapore, especially micro-chip processing.


Johor-Riau

The IMS-GT operates effectively as two bilateral links: between Singapore and Johor on the one hand, and Singapore and Riau and West Sumatra on the other. Only minor commercial links exist between Johor and Riau. In 1993, Malaysia's Cabinet gave the Johor State Government the prerogative to pursue direct bilateral links with Riau at a state/provincial level. Largely as a result of severe labour shortages, Johor now is looking at the possibility of encouraging

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¹ *Singapore Straits Times Weekly Edition*, 21 December 1989.

² *Singapore Straits Times Weekly Edition*, 5 June 1990.

³ Parsonage, James 1992, 'Southeast Asia's "growth triangle": a subregional response to global transformation', pp. 307-17.



companies in the plantation sector to invest in Indonesia under IMS-GT auspices.

Final trilateral agreements establishing the IMS-GT were signed in December 1994.

COMPARATIVE PROFILE

The component areas of the IMS-GT are significantly different in economic development, factor endowments and comparative advantage. This makes them complementary rather than competitive, a key factor promoting economic links in successful growth triangle arrangements.

The following provides a brief overview of the key characteristics and recent economic performance of each economy in the subregion.

Singapore

Singapore is a small city state with just under three million people. It has the most liberal trade policies in South East Asia and an outward-looking development philosophy and trade strategy.

After rapidly industrialising for the past two decades, Singapore has reached developed country status, as defined by the OECD, with an average per capita income in 1994 in excess of \$US 20 000. Singapore has an excellent physical infrastructure and is an important financial and business services centre for the region. It is a leading transport and communications centre, providing easy access for investors to world markets. Recent economic indicators for Singapore are given in Chapter 2.

High rates of economic growth in Singapore have led to shortages of land and labour, restricting further expansion. The resulting rising production costs, combined with the appreciation of the Singapore dollar, have eroded the competitiveness of traditional, labour intensive activities, so many have relocated from Singapore to nearby parts of South East Asia. Singapore is also concerned about its access to natural resources, particularly water: the IMS-GT secures stable water supplies from Johor and Riau.

In line with its areas of comparative advantage, Singapore is developing higher value-added, more capital and technology intensive industries. The city's importance as a services centre is rising and it is seeking to become the information technology hub for the region. Singapore attracts high levels of foreign investment in these areas.

Johor State - Malaysia

Johor is peninsula Malaysia's southernmost state and one of its most important industrial regions and investment destinations. Johor has about 2.3 million people and contributes about 6 per cent of Malaysia's total GDP. (See Table 3.2.)

Table 3.2

Malaysia and Johor: Basic Facts, 1994

	Malaysia	Johor
Area (sq. km)	329 758	18 914
Population (million)	19.5	2.3
As a % of Malaysia		11.3
Real GDP (RM billion)	176.3	11.3
As a % of Malaysia		6.3
Real GDP growth (% p.a.)	8.7	9.6
GDP per capita (RM)	9 042	5 700
As a % of Malaysia		63.0

Source: Johor Economic Planning Unit (1994); Bank Negara Malaysia (1994).

Johor's economic structure is similar to that of Malaysia as a whole, although agriculture-based industries, especially rubber and oil palm plantation agriculture, contribute more to state GDP (about 26 per cent).

Although agriculture was important in Johor's development, the manufacturing sector is expected to stimulate growth during the next decade. In 1994, Johor's manufacturing sector experienced particularly strong growth of 14.3 per cent: manufacturing accounted for nearly 35 per cent of GDP in 1994. This is driven largely by high levels of foreign and domestic investment and mirrors the transformation of Malaysia's economy away from commodities to a broader base, increasingly geared towards export-oriented manufacturing.

Plans also exist to develop Johor's tourism sector. The Johor State Government recently announced that it would develop the Mersing district to make it a leading tourism centre.⁴

Investment in Johor

Singapore is an important investor in Johor. Singapore's share of investment in Johor in 1994 was nearly 40 per cent, compared with its share of total foreign investment in Malaysia of 2.5 per cent. Japan and the NIEs are other important sources of foreign investment in Johor. (See Table 3.3.)

The Johor State Government's policy of 'twinning' with Singapore to promote industrial development has contributed to the intensive movement of people and goods between Johor and Singapore, which predates the formation of the IMS-GT.

⁴ Singapore Straits Times Weekly Edition, 10 June 1995, p. 10.

Table 3.3

Johor: Sources of Foreign Equity in Approved Projects, 1994

Country	No. of projects	Equity	
		RM million	% share
United States	7	20.9	4.5
Europe	5	17.7	3.8
Japan	47	162.2	35.4
Asian NIEs	23	73.3	15.9
Taiwan	12	47.8	10.4
Hong Kong	11	25.5	5.6
Singapore	104	170.0	37.1
Australia/New Zealand	2	3.4	0.7
Middle East	2	0.3	0.1
ASEAN (excl. Singapore)	3	1.5	0.3

Source: Johor State Economic Development Corporation (1995); Malaysian Industrial Development Authority (1995).

Investment has occurred in a wide range of industries including petrochemicals, chemicals, steel mills, electrical and electronics, textiles, rubber and processed food. The trend is for investment to support the upgrade to capital and technology intensive industries. (See Table 3.4.)

Industrial Estates

One way Johor encourages foreign investment is to develop industrial estates. In 1994, sixteen industrial estates were operating, and a further twelve were planned.

Pasir Gudang is Johor's largest and most successful industrial estate and free-trade zone. It is next to Johor port, 38 kilometres east of the main city of Johor Bahru. The estate is developed and managed by the Johor State Economic Development Corporation. To cope with increasing investor demand, particularly in light and medium export-oriented activities, other industrial estates are being developed or upgraded. A Johor Technology Park is being constructed as part of the Malaysian Government's efforts to promote the development of higher technology industries.

Table 3.4

**Johor: Cumulative Foreign Investment
by Key Industry Sector, 1994**

Ranking	Industry group	Investment RM million
1.	Electrical & electronic products	427.1
2.	Chemical & petrochemical products	247.3
3.	Metals & fabrication of metals	133.2
4.	Non-metal products	116.4
5.	Transport equipment	87.7
6.	Plastic products	52.2
7.	Food & beverages	51.0
8.	Machinery manufacturing	24.4
9.	Textiles, garments & apparel	12.0
10.	Paper, printing & publishing	11.3
11.	Other	7.6
12.	Wood & wood products	5.8
13.	Rubber products	1.7
	Total	1 177.7

Source: Malaysian Industrial Development Authority (1995).


Incentives

Johor benefits from the incentives offered by the Malaysian Federal Government for foreign investment. These include low corporate tax rates, tax exemptions for certain types of production, investment tax allowances, exemptions from customs duties on equipment and materials for export production. The Johor State Government has sought additional concessions, including the granting of duty-free status. The Malaysian Federal Government has been reluctant to grant this request because of anticipated difficulties in policing and monitoring such an arrangement.⁵

Challenges

High quality transport, power and communications infrastructure and a good supply of semi-skilled and skilled labour helped attract foreign investment to Johor. However, rapid industrialisation is generating new challenges in these areas, particularly labour shortages and rising production costs. Infrastructure development also has failed to keep pace with the booming economy, increasing

⁵ Fatimah, Bt Abdullah, YBHG Datin Paduka Hajjah 1994, 'The Indonesia-Malaysia-Singapore Growth Triangle (Johor's Experience)', p. 7.



start up costs for companies. Road networks, immigration and customs procedures constrain movement between Singapore and Johor, although the congestion is easing. For instance, immigration and customs check points for trucks are now open for longer hours and a new road bridge at Tuas will connect Singapore with Johor (to the west of Johor Bahru) by 1998.

Riau Province - Indonesia

Riau province has felt the major impact of the IMS-GT initiative. The province's economy is still largely oil-based, but in line with the overall diversification of Indonesia's economy, Riau rapidly is becoming an industrial centre and tourist destination. The manufacturing sector, in particular, is experiencing strong growth. Batam island forms an industrial enclave within Riau. Tourism and agriculture-based and light industries are being developed on other islands, including Bintan. Large scale plantations produce palm oil, coconuts and rubber.

Past Development Efforts

In 1970, Indonesia started to develop Batam island as a logistics and operational base for the oil and gas industries. In 1971, Batam was declared an industrial area, with an emphasis on an entrepôt role.

In 1973, the Batam Industrial Development Authority (BIDA) took over responsibility to develop the island. Parts of Batam became bonded warehouses and in 1978, Batam became a duty-free zone. At that time, the Indonesian Government planned Batam would become a duty-free zone to compete with Singapore.

When the Indonesian Minister for Research and Technology, Dr Habibie, became chairman of BIDA an additional objective - that Batam become a high-technology centre - was pursued, albeit with limited progress.⁶

The Indonesian Government remains strongly committed to developing Batam as a major Indonesian and regional trade and investment hub, and has started infrastructure projects, for example, upgrading the international airport.

IMS-GT - Impact on Batam

Economic development in Batam has taken off since the IMS-GT was formed in 1989. (See Table 3.5.)

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⁶ Pangestu, Mari 1991, 'An Indonesian Perspective', pp. 77-78.

Table 3.5

Batam: Main Economic and Growth Indicators

	Population	Local workers	Foreign workers	Exports (US\$million)	Flight arrivals	Ship calls	Tourist arrivals
1985	58 000	6 159	230	20.9	1 545	5 592	60 161
1989	90 500	11 041	140	53.0	3 511	10 258	359 497
1990	106 800	16 085	251	151.5	6 487	37 802	579 305
1991	107 600	22 942	295	242.0	8 456	54 341	608 837
1992	123 000	31 644	427	564.5	11 000	61 002	648 281
1993	146 214	43 496	460	925.8	11 385	59 553	680 373
1994	162 477	69 630	816	1 388.86	12 851	60 484	871 625

Source: G. Naidu (1994), updated from BIDA (1995).

Industrial activity on Batam island has expanded and diversified, promoted in part by the opening of the Batam Industrial Park (Batamindo) in 1992. Batamindo is owned jointly by Singapore Technologies Industrial Corporation, Jurong Environment Engineering (a subsidiary of Jurong Town Corporation - the major developer of industrial estates in Singapore) and major Indonesian business conglomerates including the Salim Group and Bimantara.⁷ It attracts mainly electronics industry investment, although there are also pharmaceutical, plastics and light mechanical factories. At the end of 1994, the 500 hectare site housed 61 companies with an estimated investment of US\$250 million and annual exports valued at US\$700 million. Tenants include well known electronics companies, Philips, TEAC, Sanyo and AT&T.⁸

Investment in Batam

Foreign investment in Batam largely took off in 1989, coinciding with liberalised investment regulations and the formation of the IMS-GT.⁹ By the end of 1994, investment in Batam exceeded US\$5.0 billion, more than ten times that of a decade earlier. More than 80 per cent of this investment came from the private sector, with 55 per cent from domestic investment and 44 per cent foreign investment. In contrast, in the 1970s and 1980s, the Government was the largest source of investment.¹⁰ Consistent with its proximity and the development of the IMS-GT, Singapore accounts for around 48 per cent of foreign investment in Batam, with Japan the next largest investor at 12 per cent. The NIEs and the USA are also significant investors. (See Table 3.6.)

⁷ Naidu, G., 1994, 'Johor-Singapore-Riau Growth Triangle: Progress and Prospects', p.230.

⁸ Batam Industrial Development Authority 1994, *Development Data up to June 1994*, pp. 40-54.

⁹ Naidu, G., 1994, p. 232.

¹⁰ Batam Industrial Development Authority 1994, p. 57.

Table 3.6

**Cumulative Approved Foreign Investment in Batam and Indonesia
by Country of Origin, 1 January 1967 to 15 July 1995**

	Batam		Indonesia		Batam share in Indonesia (%)
	Value (US\$ million)	Share (%)	Value (US\$ billion)	Share (%)	
Japan	161.1	12.0	23.0	18.9	0.7
Hong Kong	42.5	3.1	15.4	12.6	0.3
United Kingdom	57.2	4.3	17.6	14.5	0.3
United States	45.7	3.4	11.4	9.3	0.4
Netherlands	39.6	3.0	7.4	6.1	0.5
Singapore	648.7	48.4	8.0	6.5	8.1
Taiwan	25.0	1.9	7.8	6.4	0.3
South Korea	4.7	0.4	6.3	5.2	0.1
Australia	5.9	0.4	5.6	4.6	0.1
Germany	1.8	0.1	4.9	4.0	0.1
Others	307.4	23.0	14.5	11.9	2.1
Total	1 339.6	100.0	121.9	100.0	1.1

Source: Batam Industrial Development Authority (1995); Indonesian Investment Coordinating Board (1995).

Investment is mainly in industry, primarily electronics, basic metals and light machinery (52 per cent of the total), trade and services (12 per cent), tourism (18 per cent), real estate (16 per cent) and agribusiness (2 per cent). (See Table 3.7.)

Table 3.7

**Cumulative Approved Foreign Investment in Batam by Sector,
1 January 1967 to 15 July 1995**

Sector	Amount (US\$million)	%
Food and agriculture	12.1	0.9
Chemicals	55.4	4.2
Fisheries	25.0	1.8
Textiles	7.2	0.6
Wood and paper	21.0	1.6
Minerals	21.6	1.6
Metal manufactures	551.1	41.1
Other industries	3.1	0.2
Electricity, gas, drinking water	10.3	0.7
Hotels and restaurants	229.0	17.1
Construction	29.1	2.2
Transport	59.3	4.4
Industrial Real Estate	231.4	17.3
Commerce	6.7	0.5
Other services	77.3	5.8
Total	1 339.6	100.0

Source: Batam Industrial Development Authority (1995).

These favoured industries are 'oriented towards export using skilled labour, low water consumption, medium and high technology, and are non-polluting'.¹¹ Although Batam is developing transshipment and logistical activities, tourism, and agriculture and fisheries industries, it will not allow labour intensive industries, industries using a lot of water or space, shipbuilding, mining and heavily polluting industries.¹²

Investment spreading to other Riau Islands

In recent years, expanding investment (particularly by Singapore) has included projects in water supply, tourism and industrial development in Bintan and Karimun. (See Table 3.8.)

Investment in Bintan

Development in these islands is at an early stage, although Bintan has seen significant recent development in tourism, industry and agriculture. In Bintan,

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¹¹ Pangestu, Mari 1991, p. 79.

¹² Batam Industrial Development Authority 1994.

the Bintan Industrial Estate is being developed in the west and the Bintan Beach International Resort (BBIR) is being developed on the island's north coast. The industrial estate, opened in July 1994, is modelled along the same lines as Batamindo and uses the same partners. However, the target labour intensive industries, particularly textiles, clothing, footwear, furniture and wood products, differ from those in Batamindo. Singapore is the main investor.

BBIR is a US\$2 billion project to create a world class tourist resort, taking advantage of pristine beaches and untouched tropical terrain. Both the Indonesian and Singaporean Governments support its joint development by a consortium led by the Salim Group of Indonesia and Singapore Technologies Industrial Corporation. So far, the consortium has invested nearly S\$200 million mainly in tourism infrastructure. The project is the largest tourist development in Asia: the time estimated for completion is between fifteen and twenty years. In August 1995, two facilities operated: a beach resort offering four-star chalet type accommodation and a beach club for day trippers from Singapore. A range of five star resorts and golf courses should be ready by the end of 1998.

Reports in the Singaporean press suggest three more international consortia (from Malaysia, Indonesia and ASEAN) will invest in tourism facilities in the BBIR before the end of 1995.¹³

Bintan also is developing agribusiness, particularly plantation crops and pig and poultry farming for the nearby Singapore market. Singapore is investing in water supply projects in Bintan by constructing new reservoirs to service Bintan and to be piped to Singapore (which is only 60 kilometres away).

Bulan island also is developing its agriculture-based industry activities, for example pig farming and orchid growing. Singkep and Karimun islands are being developed as ship servicing centres.

Table 3.8

Proposed Joint Singapore-Indonesia Infrastructure Investments in Riau Province

Project	US\$ million
Bintan Beach International Resort	2 000
Karimun Marine Complex	1 000
Bintan Water Project	950
Karimun Industrial Estate	600
Bintan Industrial Estate	350
Batam Industrial Village	350
Batam Executive Village	60

Source: AFTA Monitor (1994).

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¹³ *Singapore Straits Times Weekly Edition*, 10 June 1995, p. 19.

Infrastructure Development in Riau

To encourage investment, infrastructure in Batam (and other parts of Riau) is being improved. Plans are well advanced to construct an 'Asia Port' to improve scheduled container services and reduce reliance on Singapore as a transshipment point. Shipping capacity will increase to 150 000 dwt. The new Batam International airport (Hang Nadim) should open in 1995. The extended runway (4000 metres) should take wide-bodied aircraft including 747s.

By 1997, six bridges should connect Batam with the islands of Rambang and Galang, opening up more land for development and expanding the area's tourism base. The Galang combined area will be 1.15 times the size of Singapore. BIDA has invested heavily in road upgrades and water and power supply projects. Over 570 kilometres of roads are to be completed by 2000.

STRENGTHS

The key factors underlying economic ties and rapid industrialisation in the IMS-GT are the high level of political commitment to the concept (backed by important policy changes), the strong economic complementarities between the component areas, and the geographical proximity of each part of the subregion.

Political Commitment and Policy Change


The highest levels of government in each of the countries involved have endorsed the IMS-GT, although in Malaysia, at least, business believes that the Government accords greater priority to developing the IMT-GT and BIMP-EAGA. Government endorsement has been translated into major policy changes.

Indonesian policy changes

In 1990, Indonesia introduced significant policy initiatives to attract investment to Batam. The special conditions available to foreign investors in Batam have been eroded to some extent by ongoing investment and trade deregulation measures introduced throughout Indonesia in the 1990s, particularly those regarding foreign ownership.

FOREIGN INVESTMENT POLICY CHANGES FOR BATAM ISLAND

- For the first five years, foreign equity can have 100 per cent ownership, but after that, five per cent must be divested to Indonesian business. (No further divestment is required if the company exports all its product.) In 1990, regulations applying elsewhere in Indonesia required that divestment reach 51 per cent within fifteen years. (This requirement recently was removed for most investments.)
- Batam rather than the National Investment Coordinating Board (BKPM) in Jakarta processes investment applications although final approval for investment projects still comes from Jakarta.
- The private sector can set up industrial estates in Batam.



Batam is particularly attractive as an investment destination because it has simplified export/import procedures; no import duties; no value added tax; a competitive lease price on land; a 'one-stop' service to help potential investors with applications, approvals and immigration/work permit procedures; and a 'smart card' providing exemption from departure tax.

Batam also enjoys significant advantages through new land leasing arrangements. Since 1 April 1995, foreign companies meeting normal foreign investor requirements can lease for up to eighty years. Other parts of Indonesia allow an initial thirty year lease, followed by an additional fifty years on application. The new regulation aims to overcome concerns, mainly of Singaporean companies, that previous leasehold arrangements disadvantaged longer term investors.

Batam and Bintan both have influential patrons guiding their development: Minister Habibie for Batam and Minister Hartarto for Bintan. This ensures a high level of political commitment from the Indonesian Government and high levels of infrastructure funding.

Indonesia-Singapore collaboration

Singaporean expertise, technology and capital have been very important in developing Batam and Bintan. While Indonesian Government authorities coordinate development, Singaporean business interests implement it.

As discussed previously, Indonesia and Singapore have bilateral agreements on jointly developing Riau and investment protection. Both countries have made investment promotion visits to Japan and the NIEs, and established an Indonesia-Singapore ministerial committee to oversee and facilitate the development of Riau along with an *ad hoc* coordination board. This board comprises representatives from Riau's regional development and investment agencies and Singapore's Economic Development Board and assists companies investing in Riau.¹⁴

Efforts to coordinate and harmonise regulations and procedures between Indonesia and Singapore are ongoing. As mentioned above, since 1991 computerised processing using 'smart cards' has streamlined immigration procedures. As discussed, Singapore government-linked companies have invested heavily in the development of Riau.


Malaysian support

Malaysia's Federal Government's involvement in the IMS-GT is not as obvious as Singapore's or Indonesia's. Fewer cooperative ventures at the official level exist between Singapore and Malaysia, possibly the result of stronger economic links between Johor and Singapore, which have reduced the need for government-to-government initiatives. However, the Malaysian Minister for International Trade and Industry, Rafidah Aziz, recently called for the private sectors in Singapore and Malaysia to take more concrete steps to promote complementary industrial projects.¹⁵

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¹⁴ Naidu, G., 1994, pp. 230-31.

¹⁵ *Singapore Straits Times Weekly Edition*, 27 May 1995, p. 18.



The Malaysian Government has introduced measures, including the relaxation of foreign investment rules and regulations since 1986, to encourage investment in Johor. The Johor State Government strongly promoted the development of Singapore-Johor links even before the establishment of the IMS-GT by:

- increasing the number of industrial estates and improving industrial facilities, to encourage the dispersal of industries to rural areas;
- improving the availability and quality of skilled labour in Johor through new training institutes and programs;
- upgrading transport infrastructure, particularly roads and the port; and
- streamlining customs procedures and upgrading and expanding immigration and customs facilities, including introducing 'smart cards' for immigration processing between Singapore and Johor.¹⁶

Singapore's 'regionalisation' drive

The Singapore Government's policy changes also contributed to the development of the IMS-GT. Since 1993, the Government has tried to build an 'external wing' to Singapore's economy by encouraging companies to invest overseas, particularly in fast-growing, nearby regional areas, such as Johor and Riau. Also the Singaporean Government has increased levies on the use of foreign workers, further encouraging labour intensive operations to relocate offshore.

Some Singaporeans view the IMS-GT as a 'launching pad' for the country's regionalisation strategy, as it provides Singaporean companies with the opportunity to understand different business and cultural environments nearby.

Strong Economic Complementarities

Different stages of development and factor endowments have created a comparative advantage between the areas of the growth triangle, and Singapore and Johor and Singapore and Riau (and West Sumatra) are strongly complementary.¹⁷ By combining the strengths of each part of the IMS-GT, the 'integrated subregion is more attractive to investors than its separate parts'.¹⁸


These complementarities provide the momentum to develop commercial ties, even without active government involvement. The Johor and Riau economies are much more competitive than complementary, particularly in factor endowments. As a result, economic links on the Johor-Riau side of the IMS-GT are underdeveloped.

Singapore's comparative advantage lies mainly in its highly developed infrastructure, in transport, finance and telecommunications, high-level managerial and professional expertise, and the production of high value-added capital and technology intensive goods and services.

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¹⁶ Kumar, Sree 1994, 'Johor-Singapore-Riau Growth Triangle: A Model of Subregional Cooperation'.

¹⁷ Kumar, Sere 1994, p. 180.

¹⁸ Chia, Siow Yue 1994, 'Economic Cooperation and Interdependence in the SJORI Growth Triangle'.



Johor's early advantages of low cost land and labour have been undermined by rapid economic development. Increasingly, Johor's competitive strengths are its good infrastructure and its capacity to produce medium to high value-added manufactures.

Riau still has abundant land and access to cheap unskilled labour. Comparative advantage in Riau province varies from island to island. For example, Batam seeks to attract high value-added manufacturing, especially in the electronics sector; Bintan focuses on tourism and is developing a labour intensive manufacturing base that includes textiles; and other parts of the province are developing agricultural and oil-based industries.

Geographical Proximity

The proximity of the component parts of the IMS-GT is a key factor in developing commercial links. It facilitates industrial redistribution with lower transport and travel costs, speedy transshipment of intermediate and final goods, and easy monitoring and control of activities located in separate parts of the triangle.¹⁹ As discussed in Chapter 2, geographical proximity also reduces transaction and information costs.

Proximity to Singapore has promoted investment in both Riau and Johor because investors here can be more efficient and competitive in production and distribution by capitalising on Singapore's business infrastructure and global transport links. Batam is 20 kilometres or a 30 minute ferry ride from Singapore and commuter access to Singapore is extremely efficient, with about 70 passenger ferry services per day. A 1.2 kilometre causeway (which carries 43 000 vehicles and 120 000 people per day) connects Singapore and Johor. A new road bridge (designed to cope with up to 67 000 vehicles and 238 000 people per day) is due to open in 1998. This commuting distance is shorter than between many capital cities and their hinterlands.


PROSPECTS

Economic development in the IMS-GT is likely to continue because all the areas involved benefit from economic cooperation within the growth triangle. Development of the subregion's resources uses differences in comparative advantage and production costs, and generates economies of scale and agglomeration to achieve efficient production and enhance international competitiveness.

On the other hand, different stages of economic development, resources and industrial capabilities means the three areas have different objectives, obtain different benefits and incur different costs from participating in the IMS-GT.²⁰ While these benefits and costs are difficult to quantify and will vary over time, it

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¹⁹ Naidu, G., 1994, p. 225.

²⁰ Chia, Siow Yue 1994, 'Economic Cooperation and Interdependence in the SIJORI Growth Triangle', pp. 9-10.



appears all partners perceive that the benefits of participating clearly exceed the costs.

Who Benefits?

The IMS-GT has led to accelerated investment in infrastructure and natural resource development, and export-oriented industrial and commercial development. This produces benefits of income growth, structural change, employment creation, skills development and technology transfer in each of the areas involved.

Riau has felt the greatest impact; since 1989 economic links with Singapore have helped to transform Batam's economy, with rapid increases in population and strong positive trends in most indicators of economic development. Also, development is spreading to other islands in the province.

As a result, Indonesia has recognised the potential of subregional economic cooperation to spread economic development to peripheral areas, and is now participating in other growth triangles in ASEAN .

'Subregional cooperation is a must because government is not in a position to directly mobilise the potential available for rapid development of peripheral and less developed areas ... Since it involves only the periphery of Indonesia, economic and political risks are reduced. Should the growth triangle succeed, its benefits can expand easily to the rest of the country. But if there are any adverse consequences, they can be restricted mostly to the area concerned'.²¹

Johor has benefited from high levels of investment from Singapore and other East Asian countries. Singapore's rapid economic growth and development as an important international transportation and communications hub have spilt over to Johor. Johor is becoming an important growth centre for southern Malaysia as links with the domestic economy strengthen. It is difficult to identify how much of this can be attributed to the IMS-GT initiative since market forces promoting these ties existed well before the IMS-GT was formed, but it has probably added to the region's dynamism.

The IMS-GT allows Singapore to make substantial outward investment to accelerate Singapore's industrial restructuring towards higher value-added and more capital and technology intensive manufacturing and service activities. This outward investment overcomes land and labour constraints and rising production costs in Singapore and maintains international competitiveness in labour intensive industries.

Outward investments also increase demand for capital goods, intermediate inputs and service functions from Singapore, reinforcing Singapore's role as a regional hub. The IMS-GT also secures Singapore's access to key resources, such as water, leisure and recreational facilities.

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²¹ Kosim, Gandataruna 1994, 'Indonesia-Malaysia-Thailand Growth Triangle Development Project: Indonesian Perspective'.

ISSUES FOR GOVERNMENTS

The main issues for governments involved in the IMS-GT are:

- national sovereignty
- distributional issues
- social issues
- resource allocation.

The IMS-GT has promoted economic development and consequently improved cooperative political relations between Indonesia, Malaysia and Singapore. As mentioned, the obvious success of the initiative has encouraged ASEAN countries to form new growth triangles.

However, the operation of the IMS-GT highlights complex distributional and social issues, some associated with rapid economic development and industrialisation and others related more specifically to the IMS-GT initiative.

National Sovereignty

Considerable sensitivity exists over the issue of national sovereignty. For example, lesser developed regions such as Riau province are wary of any attempt at economic domination by more developed areas, such as Singapore. In both Indonesia and Malaysia, some quarters of central government worry that sovereign areas of their respective countries are increasingly influenced by Singapore, and this could undermine central authority and national cohesion.


Distributional Issues

The distribution of benefits is a related issue. Some in Indonesia and Malaysia consider that Singapore gains the most from the IMS-GT. They believe that the development of non-resource based, footloose, export-oriented industries, with a high import content, results in only small domestic value-added and few links to the Indonesian and Malaysian domestic economies.

There are also sensitivities about the public portrayal of the role of each area of the growth triangle. For example, Indonesia does not want to be seen as bottom of the subregional division of labour, supplying unskilled and low-cost labour. Similarly, Johor does not want to be seen mainly as a dealer in middle-level technology or semi-skilled industries. However, these popular perceptions do not necessarily have any basis in the reality of the distribution impact of the growth triangle arrangement; all regions will gain from the use of their abundant resources.

In Singapore, there are concerns about the impact of accelerated outward investment on Singapore's industrial structure, or about the 'hollowing out' of Singapore's industrial base, with some small and medium-sized companies worrying about the loss of business when larger corporate clients relocate offshore.

There are also concerns about the adjustment costs associated with the retrenchment of unskilled workers. However, the Government acknowledges that the lower-end and more labour intensive manufacturing activities in



Singapore need to relocate (or upgrade) to make way for higher value-added and high technology manufacturing. In this context, IMS-GT can reduce the negative impact of hollowing out, because multinational corporations, in particular, retain their headquarters in Singapore while shifting relevant areas of their production offshore to nearby islands. Thus, Singapore retains its involvement in specific areas like finance, distribution and management, instead of losing the activity completely to countries such as China and Vietnam.

Social Issues

In both Johor and Riau, large-scale inflows of foreign direct investment and rapid industrialisation and urbanisation produced social problems, such as displaced local people, massive immigration (including illegal migration), compensation for private land acquired for various development purposes, rising costs of living, and congestion and environmental problems. On the other hand, Batam has employed large numbers of mainly younger female Indonesian workers who otherwise would have been unemployed (or under-employed) in their home villages.

Resource Allocation

The IMS-GT also has contributed to inter-province and inter-state rivalry in Indonesia and Malaysia, respectively. This results from concerns that the allocation of development resources by the central governments to the areas incorporated in the IMS-GT is at the expense of other provinces and states.


This raises the issue of equitable resource allocation. For example, in Indonesia, some have questioned the utility and fairness of large-scale government infrastructure expenditure in Riau, which may benefit only an elite group of Indonesian and Singaporean businesses; whereas, investment in other parts of Indonesia could benefit mostly Indonesians. The expected rates of return on these alternative investments also need to be compared with those from IMS-GT, to ensure that scarce infrastructure investment funds are being allocated to the highest return projects.

Another concern is that the development of Riau and Johor has simply diverted existing private sector investment away from other provinces and states, rather than generating new investment inflows.

CHALLENGES

The IMS-GT faces several challenges to its remaining a competitive destination for foreign and domestic investment.

One of the key challenges is intensifying global and regional competition for foreign direct investment inflows. Areas incorporated in the IMS-GT face increasing competition in attracting foreign investment from destinations such as China, Indochina and India (with their large domestic markets and abundant supplies of low cost labour).



The IMS-GT needs widening and deepening if it is to remain investment and cost competitive and to sustain its economic dynamism.²² Shortages of workers, especially skilled workers, have emerged in Johor. Riau's future development also faces labour supply problems. Most labour comes from outside the province and, as in Johor, skilled workers are in short supply. Available trained technical staff demand high wages, undermining the province's low-cost competitive advantage. Problems with the supply of labour are in part being overcome by extending the geographical size of the IMS-GT to include other areas, most recently West Sumatra in Indonesia. However, social problems have resulted from the large labour inflows to Riau.

Rapid development also has increased other production costs in Johor and Batam, reducing their competitiveness for labour intensive production. As a result, these areas are already seeking to develop higher value-added and more capital, skill and technology intensive industries.

Infrastructure constraints, for example in the Riau islands outside Batam, need to be overcome to attract significant levels of investment.

In addition, broader trade and investment liberalisation, for example in Indonesia, removes some of the preferences previously given to the development of the subregion, particularly Batam. However, Batam's proximity to Singapore's infrastructure and transportation links is an ongoing advantage.

AUSTRALIAN INTERESTS

Several hundred Australian companies are present in Singapore in industries including banking and finance, building materials, construction and engineering, consultancies, foodstuffs production and distribution, information technology, telecommunications, steel products and transport. The high level of Australian commercial interests in Singapore partly reflects the city's role as an important regional business and services hub.

Involvement by Australian companies in the IMS-GT, however, at this stage appears to be limited. Initiatives under the IMS-GT could interest Australian companies already in Singapore, particularly those in the construction and engineering fields, agriculture and tourism, and information technology.

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²² Chia, Siow Yue 1994, 'Economic Cooperation and Interdependence in the SIJORI Growth Triangle' p. 15

PRINTING FOR EXPORT ON BATAM: PAC-RIM

Pac-Rim Printing of Melbourne operates a joint venture business - PT Kharisma Kwartanusa Printing - on Batam. The major part of the business is printing telephone directories (white and yellow pages for Indonesia, Hong Kong, Sri Lanka and parts of Malaysia), high quality magazines, brochures, educational and travel publications. Approximately 45 per cent of the production is for export, with customers as distant as Botswana and the UK.

The General Manager of the business, an Australian, lives in Singapore and commutes daily by fast ferry. The business employs six expatriate (mainly Australian) staff and 85 local employees.

Pac-Rim remains pleased with its decision to locate to Batam, which was based initially on the island's strategic location and incentives available through Batam's bonded zone status. Those incentives are still attractive, despite the general deregulation of the Indonesian economy. Pac-Rim is taking a long term view of its presence on Batam, particularly given the strong growth in both its domestic and export business.

PIG FARMING FOR EXPORT ON BULAN: BUNGE

Bunge Industrial (Australia) Limited has joined forces with Indonesia's Salim Group in a A\$60 million pig farming joint venture on Bulan island. This is the largest Australian investment in the IMS-GT. The venture, which applies Australian technology and management techniques, will be among the most competitive in South East Asia. It aims to capture 40 per cent of the Singapore pork market by 1999. Virtually the entire piggery production is intended for export. The main focus is the Singaporean market but there is a possibility that markets further afield, such as Taiwan, will be targeted later. Bunge and Salim intend to invest a further A\$90 million in the venture over the next four years.

The venture has three Australian managers based on Bulan and employs 500 Indonesian employees. The overall manager, an Australian, is based in Singapore, from where marketing is coordinated.

Bunge and Salim are also expanding into upstream and downstream ventures: a stock feed plant in Jakarta and (in joint venture with Singapore's Sembawang and Malaysia's Sinban companies) an abattoir and distribution network in Singapore.



OUTLOOK

To help maintain competitiveness, governments in the IMS-GT are investing in infrastructure and human resource development, and extending the geographical and sectoral scope of cooperation. In addition, they try to harmonise and simplify investment rules, taxes, land laws, labour market policies, immigration and customs procedures and other regulations to improve the subregion's attractiveness to foreign investors. Central governments are responsible for most of these policies, and therefore need to act in a coordinated way.²³

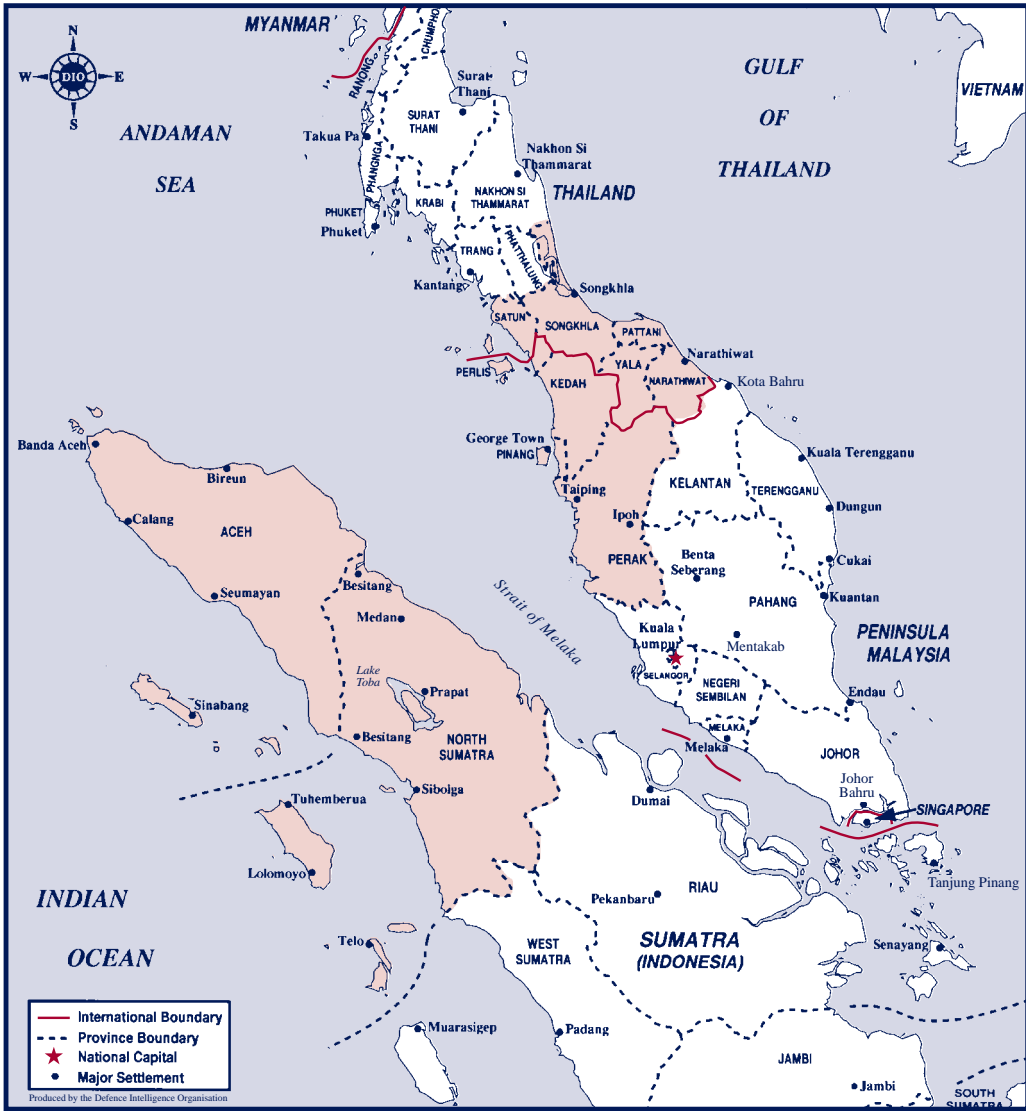
The success of the IMS-GT in promoting economic development in Johor and Riau and economic cooperation more generally has stimulated other growth triangle initiatives in ASEAN. The development of these also will require a high level of government commitment and may divert official attention and resources away from further developing the IMS-GT.

Notwithstanding the political and distributional issues and challenges outlined above, strong forces of economic complementarity and comparative advantage are likely to continue to promote economic development in the IMS-GT.

The IMS-GT is a dynamic institution and its character is changing. Investment inflows, for example, are diversifying into higher value-added and increasingly specialised activities, particularly in information technology and software industries. The IMS-GT is extending beyond its original geographic boundaries as the initial areas start to act as growth poles themselves. In Malaysia, activity has spread from Johor to Melaka, Pahang and Terengganu, while Riau activity has extended from Batam to other islands and nearby provinces.

The success of the IMS-GT will depend largely on its international competitiveness in exporting and in attracting investment. How central governments respond to the current challenges faced by the subregion will be the key factor here. This includes improving infrastructure, implementing further liberalisation measures and harmonising policies.

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²³ Kumar, Sere 1994, pp. 213-14.



Indonesia – Malaysia – Thailand Growth Triangle

Chapter 4

INDONESIA-MALAYSIA-THAILAND GROWTH TRIANGLE

This South East Asian growth triangle incorporates the Indonesian province of North Sumatra and Special Territory of Aceh, the northern peninsula Malaysian states of Kedah, Perak, Penang and Perlis, and the southern Thailand provinces of Satun, Songkhla, Yala, Narathiwat and Pattani.¹ It is known as the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) or as the Northern Growth Triangle.

Subregional cooperation initiatives for the IMT-GT are still largely at the conceptual stage. The Asian Development Bank (ADB) identified a range of projects and policies to promote growth in the subregion, but these have not yet been implemented.²

Table 4.1

Basic Indicators for the IMT-GT

Indicator	Northern Sumatra	Northern Malaysia	Southern Thailand	Total
Area (sq. km)	127 070	32 257	20 809	180 136
Population ('000) ^a	13 667	4 658	2 840	21 165
GDP (US\$ million) ^b	5 525	5 239	2 200	12 964
GDP per capita (US\$)	404.8	1 148.5	769.0	

Notes: a 1990, b 1988

Source: Min Tang & Myo Thant (1994).³

¹ West Sumatra is soon to be admitted as the third Indonesian province under the IMT-GT arrangement.

² See Appendix 2 for details.

³ Tang, Min and Thant, Myo 1994, 'Indonesia-Malaysia-Thailand Growth Triangle — An Overview and Policy Strategies', paper for *MBA Business Mission to Penang*, Nanyang Technological University of Singapore, Penang Malaysia, 23-27 February, p. 13.

HISTORY

The IMT-GT is a recent initiative. Malaysian Prime Minister Mahathir first proposed the concept in 1991. Indonesian President Suharto and then Thai Prime Minister Chuan formally endorsed the idea early in 1993.

The proposal aims to loosely and informally link the economies of northern Sumatra, northern Malaysia and southern Thailand, to exploit complementarities and comparative advantages of these economies to encourage the area's development as an export-oriented production base.⁴ The proposal also seeks to build on historical, ethnic and cultural links.

Following a ministerial meeting in July 1993, the governments of Indonesia, Malaysia and Thailand agreed to a feasibility study of the proposed IMT-GT. The ADB completed this study in late 1994.⁵ The following comparative profile of the component areas and analysis of opportunities and constraints to the development of the IMT-GT is drawn extensively from it.

Objectives

The initial impetus for the IMT-GT concept came largely from the wish to duplicate the success of the IMS-GT in promoting subregional economic cooperation between Singapore, Johor and Riau, and in particular its encouragement of industrial development in Johor and Riau. (See Chapter 3.)

As discussed in Chapters 1 and 2, governments in Indonesia, Malaysia and Thailand have become increasingly interested in using the concept of economic cooperation at a subregional level to promote the development of outlying regional areas. This interest is shown by ongoing, high-level proposals for cooperation between the three countries, including the proposal by Malaysian Prime Minister Mahathir, for an integrated, multi-billion dollar rail, road and pipeline project linking Songkhla in southern Thailand and Butterworth in Penang.⁶

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⁴ Wisarn, Pupphavesa 1994, 'IMT-GT: Economic and Political Incentives', p.2.

⁵ The results of the study will be published by the Asian Development Bank in 1995 as *Indonesia-Malaysia-Thailand Growth Triangle: From Theory to Practice*. Traders and investors considering this area will find it an important reference.

⁶ *Straits Times Weekly Edition*, Singapore, 3 June 1995, p. 10.

MAJOR OBJECTIVES OF THE IMT-GT

In general terms, the major goals of the IMT-GT are to accelerate private sector led economic growth and facilitate the development of the subregions by:

- exploiting underlying economic complementarities and comparative advantages to expand trade and investment;
- increasing international competitiveness and expanding and diversifying exports;
- lowering transport and transaction costs by taking advantage of geographical proximity;
- reducing production and distribution costs through greater economies of scale; and
- creating employment opportunities, improving income distribution and promoting more balanced development, to enhance the welfare of the subregion's population.⁷

The IMT-GT is not intended to duplicate the IMS-GT. The IMS-GT is a 'metropolitan spillover' growth area but the IMT-GT is aimed at jointly developing infrastructure, natural resources, and industries to widen and strengthen the subregion's economic base.

The IMT-GT proposal includes new forms of government cooperation at the subregional level involving joint policy formulation, consultation and collaboration across a range of areas, including road and air transport networks, fisheries and agricultural development.

COMPARATIVE PROFILE

The provinces and states in the IMT-GT are broadly classified as developing areas. Significant differences exist in factor endowments, economic structures and comparative advantages between each component. (See Table 4.2.) This gives rise to a number of trade and investment opportunities.

⁷
Asian Development Bank 1994, *Indonesia-Malaysia-Thailand Growth Triangle*, Executive Summary, p. 1.

Table 4.2

IMT-GT: Sectoral Shares and Growth Rates, 1985-88

Sector	Northern Sumatra		Northern Malaysia		Southern Thailand
	Sectoral Shares 1988	Growth rates 1985-88	Sectoral Shares 1988	Growth rates 1985-88	Sectoral Shares 1988
Agriculture	35.3	8.0	24.1	4.4	28.0
Mining & Quarrying	3.4	-3.3	4.2	8.5	-
Manufacturing	18.1	12.3	26.6	11.2	3.5
Electric, gas & water	1.0	18.8	1.9	5.0	-
Construction	3.3	0.7	2.5	-8.0	-
Trade, hotel & restaurant	14.8	8.4	9.1	-1.5	-
Trans. & communications	9.6	3.4	7.0	5.3	24.2
Banking, insurance & financial services	6.7	10.9	9.7	9.0	30.9
Social services	10.0	1.6	2.3	2.6	13.4
Real GDP	100.0	6.9	100.0	5.0	100.0

Source: Min Tang & Myo Thant (1994).


The region possesses considerable natural resources and growth potential, which are described below.

Northern Sumatra

North Sumatra Province

Key Information

- Area: 71 680 sq kms
- Population: 10.8 million
- Major cities: Medan, Binjai, Pematang Siantar, Tebing Tinggi
- Major airport: Polonia (Medan)
- Major port: Belawan (25 kms from Medan)
- Key industries: LNG, rubber, palm oil, coffee, horticulture, fishing, ceramics, tobacco, woven cloth, light industry



North Sumatra has the strongest natural resource base in the IMT-GT. Agriculture, particularly plantation crops such as rubber, palm oil, coffee and wood products, dominate the North Sumatran economy accounting for about 34 per cent of gross regional domestic product (GRDP). The province also has large, relatively unexploited offshore fisheries reserves and natural tourist attractions. Tourism currently accounts for about 17 per cent of GRDP with most of the activity centred on Lake Toba in central North Sumatra.

North Sumatra's industrial sector is expanding and accounts for about 20 per cent of GRDP. There is a particular focus on basic metals and light machinery around Medan. The provincial government is targeting further expansion and upgrading the manufacturing base.

Medan is the major trade, investment and transport hub for North Sumatra and serves a market of over 40 million people. Medan offers daily air links to Penang and Singapore. Belawan is the major port with regular container and passenger services to Penang, Singapore and Indonesia.

North Sumatra is a major source of labour in the IMT-GT: it accounts for 60 per cent of the subregion's labour force and has the youngest and most rapidly growing population.

The province has targeted economic development in agriculture, particularly plantation crops such as rubber, palm oil, coffee and wood products.

Special Territory of Aceh

Key Information

- Area: 57 365 sq kms
- Population: 3.7 million
- Major cities: Banda Aceh, Sabang, Meulaboh, Kutacane
- Major airport: Blang Banting (Banda Aceh)
- Major port: Sabang
- Key industries: Petroleum, LNG, gold, cement, rice, sawn timber, fertiliser, palm oil, fisheries

In the Special Territory of Aceh, mining accounts for 42 per cent of GRDP, processing industries 27 per cent and agriculture 16 per cent (1991 figures).

Northern Malaysia

Northern Malaysia's limited land area creates problems for resource based activities. Its oil and gas reserves are rapidly being depleted, as are reserves of some mineral and forestry resources. The area accounts for a major share of Malaysia's plantation agriculture economy and has important natural tourist attractions.

Key Information

- Major cities: Ipoh, Georgetown (Penang), Butterworth
- Major airports: Penang, Ipoh, Langkawi
- Major ports: Penang (3rd largest in Malaysia)
- Key industries: Diversified economy with various states specialising in industries ranging from agriculture to high technology and tourism

Northern Malaysia is the most industrialised area of the IMT-GT, with 29 per cent of its GRDP resulting from manufacturing. Industrial growth, particularly in Penang, has been exceptionally strong in the past decade and the area has developed rapidly: 46 per cent of Penang's GRDP is generated from manufacturing. On the other hand, north-western states are underdeveloped. Perlis, for example, still depends heavily on agriculture.

For the past two decades, northern Malaysia with its well-developed infrastructure, particularly connected with industrial estates and services based around Penang, has attracted high levels of foreign direct investment in export-oriented light manufacturing. (See Table 4.3.)

Table 4.3

Northern Malaysia: Approved Capital Investment in Manufacturing Projects, (RM million)

State	1990	1991	1992	1993	1994
Penang	1 867.2	1 525.1	1 096.0	516.8	786.3
Perak	877.3	4 006.0	4 393.8	899.4	454.5
Kedah	3 992.6	560.8	226.2	1 069.9	5 151.2
Perlis	4.9	130.4	21.1	539.9	1 246.6
Northern Malaysia	6 742.0	6 222.3	5 737.1	3 026.0	7 638.6
Total Malaysia	28 168.1	30 818.4	27 775.1	13 752.7	22 668.8
Northern Malaysia share (%)	24.0	20.0	21.0	22.0	33.7

Source: Malaysian Industrial Development Authority (1994).

Penang has received considerable investment in its electronics industry in recent years; however, this sector now is undergoing significant restructuring. Rapid industrialisation has created land and labour shortages and increased production costs in Penang. Consequently, labour intensive industry is moving to nearby parts of northern Malaysia. Export-oriented garments assembly, for example, dominates industrial activity in Kedah and Perlis. Problems with the mismatch of

labour skills available around Penang with the needs of more technologically advanced industries also create challenges for the area.

The tourism, services, energy, transportation and communication industries also are advanced in the Penang area.

Southern Thailand

Key Information

- Major cities: Songkhla, Hat Yai
- Major airports: Songkhla, Hat Yai
- Major ports: Songkhla
- Key industries: Fruit and vegetables, rubber, agriprocessing

The GRDP for southern Thailand accounts for about three per cent of the country's total output. From 1985 to 1989, southern Thailand's real output grew at an average rate of nearly 7 per cent per annum. Songkhla province is responsible for nearly half of the GRDP for southern Thailand. Agriculture accounts for 30.8 per cent of GRDP, wholesale and retail trade 21.1 per cent and services 11.5 per cent.

The key crops are natural rubber, rice, fruits, palm oil, coconut and vegetables. Southern Thailand also has extensive mineral, natural gas and forestry reserves; 15 per cent of the area is covered by forest (although deforestation rates are already high and above the national rate).

Industrialisation in southern Thailand is at a very early stage. For example, manufacturing contributes only about five per cent of GRDP and is largely the processing agricultural commodities and fisheries products (such as canned and frozen seafood). Tourist resorts also are developing around Songkhla and Hat Yai.

Malaysia is an important source of foreign investment in the area. Investment is concentrated in the Songkhla region which accounts for almost 60 per cent of approved projects. The Thai government plans to upgrade infrastructure and to develop industrial estates and export processing zones in southern Thailand to encourage foreign direct investment. Industrial estates in Pattani (currently being upgraded), Yala, and Narathiwat provinces and one to be opened near Hat Yai in Songkhla province will produce electronic components for export. This is part of the Southern Seaboard development concept, although this proposal is still a long way from being implemented.



STRENGTHS

The IMT-GT has a number of strengths to support its development.

Political Commitment

The governments of Indonesia, Malaysia and Thailand all have made a firm political commitment to develop the IMT-GT. This high level of political support must be maintained to support the implementation of major projects and policy changes identified by the ADB. Already, institutional arrangements are in place: an annual ministerial level meeting, two annual senior officials meetings (one of which immediately precedes the ministerial meeting) and working group meetings. Working groups cover trade, industry and investment, services, infrastructure, HRD, agriculture and tourism.

Plans exist to form an intergovernmental body that would promote and monitor development in the area and make recommendations towards simplifying and standardising regulations and reducing trade barriers.

The initial high level of political commitment to the IMT-GT in Thailand was due in part to the fact that then Prime Minister Chuan came from southern Thailand. The new Thai Prime Minister and the ruling Chart Thai party may not necessarily share the same degree of commitment to developing southern Thailand. Prime Minister Banharn has visited the south, but has not commented on the IMT-GT or the priority he accords it. However, development of the southern provinces is consistent with the Thai Government's broader objectives of improving rural infrastructure and reducing the development gap between Bangkok and the rest of the country.

Some of Malaysia's leading politicians, including Prime Minister Mahathir, are from northern Malaysia, which helps focus attention on the area's development.⁸

Multilateral institutions such as the ADB and the World Bank, and ASEAN, support the IMT-GT. So too do the area's local businesses. The Federation of Malaysian Manufacturers, for example, considers the IMT-GT has considerable potential. The local business community is actively involved in planning for the IMT-GT through periodic Joint Business Council meetings.

The political backing for the IMT-GT concept reflects the view that the private sector will engineer growth in the subregion once the public sector provides an enabling environment. An enabling environment includes removing trade and investment barriers, providing adequate infrastructure and improving education services.


Economic Complementarity

Although less evident than in the IMS-GT, the three areas of the IMT-GT do exhibit some complementary endowments. Differences in labour availability, the extent of land and sea resources, mineral resources, finance and capital availability, productivity, and in final demand, all create the potential to develop

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⁸ Wisarn, Puppavesa 1994, p. 6.

⁹ Asian Development Bank 1994, p. 2



a thriving trade and investment region, given a proper enabling environment.⁹ This complementarity is in part demonstrated by the existence of internal trade before the IMT-GT proposal and the ‘explosive increase in business contacts among the private sector actors more recently’.¹⁰

Northern Sumatra has a comparative surplus of labour, land and natural resources (particularly marine resources) plus emerging competitiveness in labour intensive light manufacturing. Southern Thailand’s natural resources, especially marine and forestry resources, have been over-exploited, but its plantation forests still offer significant resources for future production. Southern Thailand has a comparative advantage in marine technology and services. Northern Malaysia’s comparative advantage mainly lies in high-skilled manufacturing technology and services, destined mainly for export markets.

Differences in labour availability between the three areas are reflected in real wage rates. Northern Sumatra has an advantage in low labour costs: the minimum daily wage as set by the Indonesian Government is approximately US\$1.85 (US\$1.55 for the Special Territory of Aceh). In northern Malaysia, the average unskilled daily labour rate ranges from US\$2.30 in Kedah to US\$8.50 in Penang. The minimum wage in southern Thailand is about US\$4.00 per day. Average unskilled labour rates in Yala and Songkhla are US\$7.40 to US\$8.70 per day, but many businesses pay less than the minimum wage.

Complementarities also exist in the availability of skilled labour and management expertise between different parts of the subregion.


The strongest complementarity appears to exist between northern Malaysia and northern Sumatra, particularly in land, labour and natural resource endowments. Northern Malaysia’s land and labour shortages and rising costs, especially around Penang, make land and labour intensive industries uncompetitive. However, northern Sumatra has ample reserves of both land and labour and Malaysian industry already imports unskilled and semi-skilled workers from Indonesia.

The complementarity between northern Malaysia and southern Thailand is less clear. Labour costs and availability are similar in both, and the two areas compete in producing electrical, machinery and light manufactures.

The relationship between northern Sumatra and southern Thailand appears to be the weakest in the IMT-GT, in trade, investment and transport connections. The two areas have similar natural resource endowments and compete in the production and export of rubber, palm oil and fresh vegetables.

The objectives for the IMT-GT do not focus on relocating industrial activities within the subregion, so strong complementarity between component areas may not be as important as in the IMS-GT. Based on the IMS-GT experience, relocating labour intensive industries (including electronics and electrical goods, food processing and natural resource based industries) from Penang in northern Malaysia, particularly to northern Sumatra, could be an important preliminary activity to get the IMT-GT up and running.

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¹⁰ Kosim, Gandataruna 1994, ‘IMT-GT - Outlook and Obstacles’, p. 39.



As many of the component areas of the IMT-GT are at broadly similar stages of economic development, they face similar challenges which generate similar solutions.¹¹ This makes developing trade and investment links more complex than in the IMS-GT.

INTRA-REGIONAL TRADE AND INVESTMENT

Despite some similarities in factor endowments and production patterns in the IMT-GT, the ADB's study of the growth triangle identifies opportunities to expand intra-IMT-GT and external trade. The composition of existing intra-regional trade demonstrates some of the complementarities of the three subregional economies. It is quite different to overall patterns of trade between the countries as much of the current trade among the growth triangle's component areas is based on natural resource complementarities.

- Northern Sumatra exports mainly fresh fish, vegetables and tea to northern Malaysia. It exports mainly crude palm oil and fertiliser to southern Thailand. Northern Sumatra and the other two parts of the growth triangle trade informally in rice, sugar, flour, onions, sawn timber, low cost garments and seafood.
- Southern Thailand exports rice, fresh fruit, rubber products, fish and canned food to northern Malaysia.
- Northern Malaysia exports mainly refined palm oil, speciality fruits and some machinery and appliances to southern Thailand.

Investment links within the IMT-GT are expanding: 31 MOUs have been concluded under IMT-GT auspices; Malaysia and Indonesia will develop jointly a two hectare site within the Medan Industrial Estate for light industry (especially textile manufacturing); Malaysia has invested in two hotels in Medan and other tourist facilities; Malaysia has also invested in an ice factory in Bandah Aceh for the fishing industry. Thai companies may invest in fisheries activities in northern Sumatra.¹²

Activities most likely to attract intra-regional investment in the IMT-GT in the short to medium term are resource based industries, for example processing agricultural, fisheries and timber products. Some electronics component manufacturers in northern Malaysia may relocate labour intensive production to northern Sumatra and southern Thailand to take advantage of relatively cheap and plentiful labour.

Areas of participating countries lying outside the IMT-GT are likely to significantly invest in the triangle. This is likely to concentrate on high value-added manufacturing in northern Malaysia, agriculture-based industries in southern Thailand (with some industrial investments around Songkhla) and resource based and labour intensive industries in northern Sumatra (mainly around Medan). Much of this investment is likely to be export-oriented,

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¹¹ Kosim, Gandataruna 1994, p. 38.

¹² Tang, Min and Thant, Myo 1994, p. 22.

although anecdotal evidence in northern Sumatra suggests that the potential 40 million strong Sumatran domestic market is driving investment.

PROSPECTS

Cooperation between both the public and private sectors will create the IMT-GT. Public policy initiatives, particularly liberalising and harmonising trade and investment policies, will be critical. The subregion particularly possesses some of the basic infrastructure needed to promote cross-border economic links, but infrastructure development will also be important in determining the rate at which the IMT-GT progresses.

The ADB's study identifies five priority sectors for cooperation and coordinated action between Indonesia, Malaysia and Thailand in implementing the IMT-GT proposal.

PRIORITY SECTORS FOR COOPERATION IN THE IMT-GT

- trade, investment and labour mobility
- transport and communications
- agriculture and fisheries
- industry and energy
- tourism

Proposed Projects

Nearly one hundred projects, programs and policies have been identified to develop the IMT-GT over the next decade.

Developing better infrastructure, especially transport and telecommunications, is a key priority in the IMT-GT. To encourage trade and investment, proposed projects include developing industrial estates, special economic zones and trade information centres. In the energy sector, proposed cooperation initiatives include jointly developing power facilities. The ADB has suggested fisheries and agricultural processing and marketing and infrastructure development projects (particularly roads, but also railways, and air and sea ports). Developing an integrated tourism infrastructure in the IMT-GT is another priority and tourism development plans are to be prepared for each part of the growth triangle.

Examples of projects of possible interest to Australian business are included in Appendix 2. To implement fully the high and medium-priority development proposals would cost around US\$15-20 billion over ten years.¹³ Various sources including the private and public sectors and multilateral development agencies will need to finance the IMT-GT projects.

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¹³ Asian Development Bank 1995, *ADB Review*, June, p. 4.



Policy Initiatives

The ADB's study also identifies a number of policy initiatives and programs which the governments of Indonesia, Malaysia and Thailand need to implement to complement the projects outlined above.

PUBLIC POLICY CHANGES RECOMMENDED BY THE ADB

- Simplify and coordinate customs, immigration and transport policies to facilitate cross-border trade, tourism and labour flows, especially on the Thai-Malaysia border.
- Lower tariff and non-tariff barriers by reducing or eliminating import duties and charges on a unilateral or bilateral basis on selected critical items.
- Enhance investment policies and procedures in northern Sumatra and southern Thailand, for example, by simplifying and deregulating approvals procedures.
- Regularise foreign labour flows into northern Malaysia.¹⁴

Programs to facilitate subregional collaboration, such as promoting direct investment, human resource and skills development for industries, environmental protection and marine resource management need to support these policy improvements. Improved institutional arrangements for investment approvals and promotion and foreign labour employment are also required.¹⁵ Industry or sector based inter-country working groups have been mooted. Programs to develop financial mechanisms to facilitate cross-border trade and investment also are needed.


CHALLENGES

Like other growth areas, the IMT-GT faces a number of challenges, including:

- complementarity is less evident than in the IMS-GT;
- the subregion lacks a metropolitan core or 'growth pole';
- infrastructure is not highly developed, making it difficult to translate geographical proximity into economic advantage, and raising production costs;
- serious political and security sensitivities exist in parts of the subregion. Continuing low-level friction between the largely Moslem southern Thailand and the rest of Buddhist Thailand has led to sporadic terrorist acts

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¹⁴ Asian Development Bank 1995, p. 18.

¹⁵ Asian Development Bank 1995, p. 7.



by separatist groups. Considerable sensitivities exist over illegal labour movements from Indonesia to Malaysia; and

- institutional arrangements will be complex because of the many levels of government involved: for example, in Indonesia, lack of coordination is already a problem between Jakarta and participating provinces, and tensions also exist between participating provinces.¹⁶

These emerge as constraints when the IMT-GT is evaluated against the IMS-GT model. As mentioned previously, the ADB used a different model which focused more on jointly developing infrastructure and natural resources to examine the initiative's potential.

In addition, the IMT-GT faces challenges similar to those of the IMS-GT. They include ensuring an equitable distribution of benefits, coordinating policies and regulations, dealing with issues of national sovereignty, and overcoming the challenge from increasing competition for investment funds. Provincial authorities in northern Sumatra, for example, are frustrated by the difficulty in making progress under the IMT-GT while decision-making and political and economic power remain centred on Jakarta. The provincial government wants action but Jakarta is making slow progress on simplifying export/import procedures, introducing a 'smart card' (similar to Batam's) to streamline immigration procedures, and extending land leases to foreigners from the current thirty to eighty years (as in Batam).

While land is abundant in the IMT-GT, labour availability is a concern. The Indonesian part of the triangle lacks adequately trained labour and there are questions about how much labour can be freed up in the relatively underpopulated southern Thailand. Human resource development must be coordinated to ensure an appropriately trained workforce is available. For example, in northern Malaysia, a skilled workforce will be needed for more capital-intensive activities.

Potential investors in non-resource or non-agriculture-based industries in southern Thailand and northern Sumatra are deterred by poor industrial and transport infrastructure. High levels of public and private investment will be needed to help overcome these constraints.

The ADB's study also identifies several important non-economic constraints, such as policies, procedures and institutional issues covering cross-border trade and investment, and labour and transport flows. These include:

- National level trade policies, including complicated customs procedures, high tariffs, quotas, price controls and monopolies, particularly for agricultural and resource based products.
- Lack of coherent policies controlling labour flows, leading to problems of illegal migration and delays in the legal entry of foreign workers.

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¹⁶ Chia, Siow Yue 1994.

- Conflicting investment policies, including those controlling foreign equity ownership, land ownership by foreigners, access to local markets, incentives and approval procedures.
- Lack of information, for example on potential activities and partners for joint investments in the subregion.
- Visa, licensing and travel restrictions between the three countries.¹⁷

AUSTRALIAN INTERESTS

Australian interests in the IMT-GT largely are limited to small projects and trade with local companies.

A West Australian company, Wavemaster, has a joint venture with the Penang Shipbuilding Corporation to supply high speed ferries to Penang and the surrounding region. There is also a considerable and growing presence of Australian education providers in Penang, with major twinning arrangements involving The University of Sydney and Melbourne's RMIT. Austrade recently established an office in Penang, in part to focus on opportunities in the IMT-GT. Australia also recently appointed an Honorary Consul to represent Australian interests, including commercial ones, in Malaysia's northern states.¹⁸

Southern Thailand and northern Sumatra remain largely untouched by Australian commercial activity. A partly Australian owned plastics moulding company is in Hat Yai in southern Thailand and BHP is in northern Sumatra with a six person office in Medan as part of PT BHP Steel Building Products' Indonesian operations. Their major products include wire mesh building products, fencing and decking materials and they plan to open a factory in the Medan Industrial Estate in 1996. Australians also are involved in consulting and subcontracting in northern Sumatra, particularly in mining and real estate.


Australia's limited commercial links reflect the isolation of these areas, the relatively poor infrastructure and distance from capital cities, which increase the perceived risks and operating costs for companies operating outside the major commercial centres.

A number of Australian companies attended a Joint Business Council meeting on the IMT-GT held in Penang in December 1994. The bilateral Chambers of Commerce encourage foreign companies to participate in such functions to meet key local players and learn about business opportunities. The Malaysian private sector, in particular, has expressed strong interest in Australian commercial involvement in IMT-GT projects.

Opportunities exist in agriculture and agribusiness (for example in cold storage technology), as well as in mining, light industry and infrastructure development. The vocational education and human resource areas, tourism and other service industries are also potential niche markets for Australian companies. Australian

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¹⁷ Tang, Min and Thant, Myo 1994, pp. 27-28.

¹⁸ Contact details are in Appendix 3.



construction and building companies could act as subcontractors in the extensive infrastructure projects planned and in the medium term, high-speed ferries may be needed in parts of the IMT-GT to transport goods. Protection of domestic shipping industries, however, could constrain sales.

OUTLOOK

The ADB's study indicates that developing the IMT-GT is feasible. While the IMT-GT provides a useful framework to increase cooperation, the initiative remains some considerable way from being implemented. The areas involved are still generally underdeveloped, and the benefits are likely to take many years to emerge.

Policies and projects identified as part of the IMT-GT should help to promote economic cooperation between the component areas, improve their international competitiveness and support economic development and diversification. So far, however, there has been little effect on trade and investment flows in the subregion. To date, the initiative has increased business contacts resulting from a regular series of working group meetings under the IMT-GT. This has resulted in 31 MOUs being signed between Indonesian, Malaysian and Thai companies, although these are more expressions of interest than actual contracts.

All three governments involved are motivated to make the IMT-GT work. The high level of political commitment, however, will need to be translated into policy action by central governments to overcome the development gap that remains between areas of the IMT-GT and the major centres of commercial activity. Realising the potential benefits of the IMT-GT will require considerable effort, particularly in implementing policy reforms, financing projects, overcoming practical constraints and disincentives and promoting greater intra-regional trade and investment in the medium term. So far, while the level of government commitment is high, only limited business interest and investor confidence exists in the IMT-GT initiative.

To succeed, the IMT-GT will require an 'optimal mix of public sector actions and policies and private sector initiatives since neither can sustain the implementation of the triangle by themselves'.¹⁹

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¹⁹ Asian Development Bank 1994, pp. 20-24.



Brunei – Indonesia – Malaysia – Philippines East ASEAN Growth Area

Chapter 5

BRUNEI-INDONESIA-MALAYSIA- PHILIPPINES-EAST ASEAN GROWTH AREA

The BIMP-EAGA is the most recent South East Asian growth triangle initiative. It incorporates the nation of Brunei Darussalam, East and West Kalimantan and North Sulawesi in Indonesia, Sabah and Sarawak and the Federal Territory of Labuan in eastern Malaysia and Mindanao and Palawan in the southern Philippines. It is also known as the East ASEAN Growth Area (EAGA) or the East ASEAN Polygon.

Subregional cooperation initiatives for the BIMP-EAGA are still at a relatively early stage of development. Detailed studies of the subregion to identify economic complementarities and the scope for joint projects or programs to promote development have yet to be completed. A number of priority areas for cooperation, however, have been identified and some public and private sector initiatives undertaken, including establishing an EAGA Business Council and holding EAGA business and trade forums in Davao in the southern Philippines in November 1994 and Brunei in November 1995.

Table 5.1

Basic Indicators for the BIMP-EAGA, 1994

Country	Area (sq.km.)	Population (million)	GNP per capita (US\$) ^a	GDP growth (%)
Brunei Darussalam	5 765	0.3	8 525 ^b	1.1
Indonesia total	1 919 443	192.2	795	7.3
East & West Kalimantan ^b	349 200	5.1	406	12.0
North Sulawesi ^c	27 515	2.5	386	12.3
Malaysia total	329 728	19.5	3 406	8.7
Sabah ^b	73 619	1.2	2 323	8.8
Sarawak ^b	124 967	1.8	2 323	8.8
Labuan ^b	92	0.1	n.a	n.a.
Philippines total	300 000	67.2	952	4.5
Mindanao	102 043	16.3	925	4.3
Palawan	14 986	0.6	936	2.5
Total BIMP-EAGA	698 187	27.9		

Notes: a nominal, non-purchasing parity terms b 1991 figures c 1992 figures

Source: I Salleh (1993), cited in Paul Dominguez (1994); ADB (1993).



HISTORY

The Philippines played a key role in forming the BIMP-EAGA. Philippines President Ramos first raised the idea of establishing a growth triangle linking the southern Philippines, eastern provinces of Indonesia and eastern Malaysia during an ASEAN Heads of State meeting in October 1992.

President Ramos again raised the proposal with Malaysian Prime Minister Mahathir during his state visit to Malaysia in January 1993 and with Indonesian President Suharto during a state visit in September 1993.

President Suharto publicly endorsed the EAGA concept in September 1993. ASEAN Economic Ministers discussed the proposal during their meeting in October 1993. In November 1993, the Sultan of Brunei confirmed his country's participation and the acronym was changed to BIMP-EAGA. In February 1994, Prime Minister Mahathir publicly endorsed the BIMP-EAGA. The BIMP-EAGA was established formally in March 1994.

In addition to the highest level of each government endorsing the BIMP-EAGA, representatives of the component areas have organised several government and private sector missions to contribute to establishing the initiative. The importance of the private sector in promoting the development of the BIMP-EAGA was demonstrated when the first East ASEAN Business Convention was held in Davao in November 1994.

Australia's Northern Territory is not formally part of the EAGA, but was represented at the inaugural ministerial meeting in the Philippines and at the Davao business convention.

OBJECTIVES


The BIMP-EAGA initiative recognises long-standing historical, cultural and ethnic ties and existing informal commercial links.

The BIMP-EAGA plans to capitalise on these links and areas of economic complementarity and comparative advantage by:

- building on existing trade and investment links within the subregion;
- increasing investment inflows (domestic and foreign) to the subregion and promoting export-oriented industrialisation;
- promoting the joint development of the subregion's extensive natural resources; and
- increasing incomes and promoting more balanced development both nationally and in the subregion.¹

The BIMP-EAGA is an open and flexible grouping. The private sector is expected to play a key role in the component areas, while governments are

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¹ Dominguez, Paul 1994, 'East ASEAN Growth Area: The Philippines' View', p. 7.



expected to provide the infrastructure and policy reforms to support and respond to the development needs of the subregion.

A highly decentralised organisational structure for the BIMP-EAGA has been proposed. In each country, a minister will chair a high-level council to oversee BIMP-EAGA-related matters and periodic ministerial and senior official meetings are to be held to monitor progress. A private-sector led business council with representatives from each country will encourage trade and investment activities.²

In addition, cooperation initiatives under BIMP-EAGA are not limited to quadrilateral arrangements; two or three participants can initiate cooperative arrangements which will be recognised as part of BIMP-EAGA cooperation. Cooperation agreements between one or more participants and non-participating countries and organisations also will be considered as part of the BIMP-EAGA.

Priority Areas for Cooperation

The BIMP-EAGA inaugural ministerial meeting agreed on four areas for priority development and each member country accepted prime responsibility for one area:

- air links (Brunei);
- sea links, transport and shipping services (Indonesia);
- fisheries cooperation (Philippines); and
- joint tourism (Malaysia).³

Working groups will examine and suggest coordinated development schemes in each of these areas.

To accelerate growth through cooperation in the BIMP-EAGA, working groups will also examine the mobility of people, environmental protection and management, energy, construction and construction materials, telecommunications, human resource development, agri-industry, capital formation, financial services and forestry.

ADB Study

The ADB's study of the BIMP-EAGA should be completed in late 1995. It aims to identify areas for public and private sector economic cooperation which will mutually benefit the four countries as well as specific projects and programs to promote growth and foreign investment in the subregion.

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² Dominguez, Paul 1994.

³ 'Salient points in the agreed minutes of the inaugural ministerial meeting of the BIMP-EAGA', 26 March 1994, Davao City, Southern Philippines, p. 3.

COMPARATIVE PROFILE

With the exception of Brunei, the provinces and states in the BIMP-EAGA are generally rich in natural resources but economically underdeveloped. The subregion's resource endowments, economic structures and areas of potential are briefly described below.

Brunei Darussalam

Key Information

- Capital: Bandar Seri Begawan
- Population: 300 000
- Major ports: Muara, Kuala Belait
- Airport: Brunei International Airport
- Key industries: Oil and gas

Brunei is a small, oil-rich Malay Islamic Sultanate on the north-west coast of Borneo. Its economy depends heavily on oil and gas which account for 96 per cent of exports. High levels of government spending on infrastructure projects and new buildings have supported strong growth in the construction and services industries.

Brunei has one of the highest levels of GDP per capita in South East Asia but incomes are distributed unevenly and fluctuate markedly according to oil and gas outputs. Brunei's physical infrastructure - roads, telecommunications and air and sea ports - is of a high standard.

Brunei has large international currency reserves and its earnings from overseas investments (believed to be in the order of B\$4 billion per annum) are an important source of revenue in the economy.

Since 1986, the Brunei Government has sought to diversify its economy, although discoveries of new oil and gas reserves reduced the momentum in the early 1990s. Priorities for diversification include domestic food production, value-added industries using local resources (silica sand and clay, fish stocks and forest timber) and eco-tourism. Eco-tourism is an area of potential opportunity for Australia. The Brunei Government advocates the privatisation of state enterprises with telecommunications the first to be privatised. However, this process still is at an embryonic stage.

Diversification plans have produced only limited results and the non-oil and gas sectors are still marginal. The limited supply and high cost of local labour complicate prospects for diversification. Nearly half the working population is employed by the government and a further five per cent by Brunei Shell.

Brunei's timber industry has considerable potential for development. About 80 per cent of the country's land area is forested and the government carefully and strategically manages this. At present, sawmilling (for the local market) and furniture manufacturing are the only areas actively pursued.

Brunei's commitment to BIMP-EAGA comes from the highest levels of government with the Sultan and a number of ministers referring to it as the 'cornerstone of Brunei's economic development'. The government hopes that Brunei will become a major gateway for the growth area and that EAGA will stimulate Brunei's efforts at economic diversification. The government recently announced a major redevelopment of the Muara Port. Its aim is for Muara to become the hub port for the EAGA and the transshipment point for neighbouring areas in Sarawak.

Brunei's hard lobbying was ultimately successful in winning for itself the seat of the EAGA secretariat.

Indonesia

Table 5.2

Indonesia: Area and Population by Province, 1990

Province	Area (^{'000} sq. km)	Population		GRDP Growth ^b (% p.a.)	
		(^{'000})	growth (% p.a.) ^a		per sq. km
West Kalimantan	146.8	3 239	2.7	22	8.3
East Kalimantan	202.4	1 877	4.4	9	2.7
North Sulawesi	19.0	2 479	1.6	130	4.2
Indonesia Total	1 919.0	179 322	2.0	93	5.1

Notes: a 1980-90 b Gross Regional Domestic Product, average growth 1983-88

Source: Asian Development Bank (1993).

North Sulawesi

Key Information

- Capital: Manado
- Population: 2.5 million
- Major ports: Bitung
- Key industries: Plantation agriculture, fisheries

North Sulawesi occupies most of the northern peninsula of the island of Sulawesi. The province also includes about one hundred small islands.

Agriculture, fisheries, mining and forestry dominate North Sulawesi's economy. Industrial activity concentrates on the processing of products from each of these sectors. The agricultural industry is dominated by tree crops, particularly coconuts. It is the largest copra producing area in Indonesia and there is also significant production of cloves. In addition, off-shore fisheries reserves are

extensive. Consequently, recent investment in the fish canning industry has been significant. In 1992, exports from the province earned about US\$85 million.

The provincial government has prioritised tourist development of the region's extensive natural and cultural attractions.

An industrial estate is being developed near the port of Bitung. Infrastructure in the area, including roads and airports, is of a reasonable standard. The port is to be upgraded.

East Kalimantan

Key Information

- Capital: Samarinda
- Population: 1.9 million
- Key industries: Oil, forestry

East Kalimantan is on the island of Borneo, at the centre of the BIMP-EAGA. East Kalimantan's economy relies mainly on oil and natural gas resources (it is the leading oil producing area in Indonesia), mining (mainly coal and gold) and forestry products, which have considerable potential for further development. East Kalimantan's annual export earnings are about US\$2 billion. The provincial government is seeking to diversify the economy by expanding agriculture-based industries, especially plantation agriculture (including rubber, coconut, coffee and palm oil) mainly for export.

West Kalimantan

Key Information

- Capital: Pontianak
- Population: 3.2 million
- Major ports: Pontianak port
- Airport: Supadai airport
- Key industries: Forestry, tourism

West Kalimantan's economy relies on forest-based products, tourism and services. Economic growth in 1993 was 6.6 per cent and exports earned about US\$570 million. The major exports are wood and wood products, rubber and fisheries products. The manufacturing and trade sectors also play an important role in the province's economy.

West Kalimantan has considerable potential to develop agricultural and fisheries industries and tourism. Infrastructure in the province, particularly road networks, still needs considerable development.

Table 5.3

Indonesia: Sectoral Distribution of GRDP^a, 1988, per cent

Province	Agriculture	Mining	Manufacturing	Trade & services	Admin. & defence	Other
West Kalimantan	30.2	0.4	18.5	32.0	7.4	11.5
East Kalimantan	10.4	61.4	8.8	13.0	2.3	4.1
North Sulawesi	35.4	0.8	4.9	18.6	21.5	18.8
Indonesia Total	21.1	16.0	18.4	22.1	11.5	10.9

Note: ^a Gross Regional Domestic Product

Source: Asian Development Bank (1993).

Malaysia**Sabah**

Key Information

- Capital: Kota Kinabalu
- Population: 1.2 million
- Major ports: 8 seaports
- Key industries: Agriculture, forestry, oil

Sabah is in the northern part of Borneo. Its economy is largely agriculture-based; it relies mainly on crops, livestock, forestry and fishing. Agriculture contributes 26 per cent to GRDP, followed by forestry (logging) at 10.6 per cent and wholesale and retail trade at 9.5 per cent. Sabah has extensive forest reserves and exports large quantities of forest products (logs, sawn timber, plywood, rattan). It also exports tea, palm oil, cocoa, rubber and coconut. Tourism is expanding.

Manufacturing is developing and contributes about 10.5 per cent of the state's GDP, mainly in processing food and the state's natural resources and manufacturing textiles, furniture and chemicals. Like Sarawak, Sabah attracted little of the large-scale investment flows to Malaysia in the 1980s and 1990s. Between 1990 and 1993, for example, Sabah received only two per cent of approved manufacturing investment in Malaysia. The corresponding share for Sarawak was ten per cent.

Infrastructure around Kota Kinabalu is well-developed. Sabah also offers a well-trained labour force and a conducive investment climate: both the state and federal governments provide investment incentives (fiscal and non-fiscal) and the state government operates a 'One Stop Investment Centre'.

Sabah gives priority to developing export-oriented, resource based manufacturing industries but also encourages diversification into non-resource based

manufacturing. The Sabah Economic Development Corporation (SEDCO) promotes these goals. A large industrial park near Kota Kinabalu will promote industrial development. The state government also is establishing free trade zones in Kota Kinabalu, Sandakan (where the state's forest reserves are concentrated) and Tawau.

Sarawak

Key Information

- Capital: Kuching
- Population: 1.8 million
- Major ports: Bintulu port
- Key industries: Forestry, oil & gas

In land area, Sarawak is the largest state in Malaysia. It has extensive natural resources, such as timber, petroleum, natural gas, marine and mineral resources. Mining accounts for over 34 per cent of the state's GDP but the state also is developing an important eco-tourism industry. An integrated agriculture development project promotes the development of agriculture, particularly palm oil and plantation crops, livestock, horticulture and fisheries industries. Pepper is the main agricultural export.

Manufacturing accounts for 14.5 per cent of Sarawak's GDP. The Sarawak State Government established a Ministry of Industrial Development to promote expansion of the manufacturing sector. A free trade zone located in Maura Tabuan also should promote export-oriented industrialisation.

The Sarawak State Government focuses on expanding and improving infrastructure and services and encouraging human resource development to help meet its industrialisation objectives.

Labuan

Key Information

- Capital: Victoria
- Population: 54 000
- Key industries: Banking & finance

Labuan, a Federal Territory of Malaysia, is about eight kilometres off the Sabah coast and consists of several small islands. Labuan is a free port. The Malaysian Government is promoting its development as an international, low-tax off-shore financial centre and as the financial centre of BIMP-EAGA, with off-shore banking operations, trust fund management, off-shore insurance and insurance-related businesses as well as off-shore investment holding companies. By

streamlining regulations, providing high quality infrastructural support facilities and a well-trained labour force, attractive tax incentives (for example, favourable tax treatment of interest paid on deposits and on bank earnings), Labuan by late 1993 had fifteen off-shore banks in the process of setting up branch operations.

The Philippines

Mindanao

Key Information

- Major City: Davao City
- Population: 16.3 million
- Major ports: Davao, Cagayan de Oro, General Santos City
- Key industries: Plantation agriculture, fisheries

Mindanao is the second largest island in the Philippines and consists of twenty-three provinces. Mindanao's economy is strongly oriented towards agricultural, fisheries and natural resource production. Its agricultural output accounts for 36 per cent of total Philippine agricultural production; national exports of bananas, pineapples and rubber all come from Mindanao.

Mindanao's industrial sector, however, is less developed and contributes only 14 per cent to national industrial output. Unlike other parts of the Philippines, Mindanao has sufficient energy due to extensive hydro resources. The island also is developing as an important mining location with high grade gold and copper deposits. Exploration for minerals and oil is expanding.


Mindanao's medium-term development plan focuses on providing infrastructure, particularly transport.

Palawan

Key Information

- Major City: Puerto Princesa
- Population: 0.55 million
- Major ports: Puerto Princesa
- Key industries: Fishing, plantation agriculture, eco-tourism

The province of Palawan is the fishbowl of the Philippines, producing approximately 60 per cent of the country's total requirements of fish. Puerto Princesa is the major port serving the fishing fleets of the Sulu and South China seas. Agriculture production is mainly of rice, coconut and bananas. Palawan is rich in minerals, particularly mercury and non-metallic reserves such as marble, silica, sand, talc and limestone and has off-shore oil and gas reserves.



Palawan is the Philippines' last ecological frontier, with much of the island covered by virgin forest, the home to a range of flora and fauna. Only 12 per cent of potential agricultural land area is cultivated.

Development efforts in the province are largely directed at eco-tourism with infrastructure projects such as power, water, transport and communications to support these efforts.

STRENGTHS

The main strengths of the BIMP-EAGA are the high level of political commitment to the area's development and the extensive (though largely untapped) natural resource endowments of the subregion.

Political Commitment

The governments of Brunei, Indonesia, Malaysia and the Philippines have all made a strong commitment to developing the component areas of the BIMP-EAGA. This is partly for domestic political reasons, arising from the need to promote more balanced economic development and a more equitable sharing of the benefits of economic growth. Except for Brunei, development of the areas incorporated into the BIMP-EAGA has lagged behind that of each of the countries involved.

President Ramos's long-standing personal interest in developing the southern Philippines helped win political commitment to the BIMP-EAGA. President Suharto has also increased priority on developing the eastern provinces of Indonesia.

Central governments involved in the BIMP-EAGA recognise that a long-term commitment is needed to develop the subregion. That commitment will require large-scale investment by governments in infrastructure provision and to support cooperation initiatives and joint projects. Governments will also need to coordinate economic strategies for the subregion and undertake significant policy reforms to promote the flow of goods and services and attract private sector investment. Most investment will come from outside the subregion. Sabah and Sarawak, for example, will depend on capital from peninsula Malaysia.

The support of multilateral institutions will also be important. The ADB, World Bank and Japanese and US aid organisations have programs in areas of the BIMP-EAGA (except Brunei). Aid for physical infrastructure and human resource development (especially education and health) will help to lay the foundations needed to support future economic development in the subregion. The ADB's study of the BIMP-EAGA may identify further aid projects.

Economic Complementarities

The economies incorporated in the BIMP-EAGA are more competitive than complementary regarding their human and natural resource endowments and stages of economic development. Each area exports and imports broadly similar types of products (see Table 5.4) and economic links within the subregion are weak.

Table 5.4

Major Exports of BIMP-EAGA Members

Country	Category	Product
Brunei		
Exports	Resource based	oil & gas
Imports	Resource based	food & live animals, beverages, crude materials (rubber, wood, fertiliser)
	Manufactured	machinery & equipment, other capital goods
Indonesia		
<i>East & West Kalimantan, North Sulawesi</i>		
Exports	Resource based	sawn logs, oil & gas, rubber, coal, nickel, gold, coconuts, fish, rattan, rice, livestock, coffee, palm oil
	Manufactured	fertiliser, plywood, construction materials, marine products
Imports	Resource based	mineral fuels, food & live animals
	Manufactured	machinery & transport equipment, chemicals, manufactured goods
Malaysia		
<i>Sabah, Sarawak & Labuan</i>		
Exports	Resource based	crude petroleum, crude palm oil, sawn logs, cocoa, plantation agriculture, rubber, copper
	Manufactured	sawn timber, paper, processed palm oil, wood, transport equipment, electronic products
Imports	Resource based	food & beverages, petroleum products,
	Manufactured	construction & mining equipment, machinery & transport equipment, fertiliser
Philippines		
<i>Mindanao & Palawan</i>		
Exports	Resource based	fresh fruit, coconut, prawns, rubber, cattle, grains, plantation agriculture, fish products, coffee
	Manufactured	plywood, window/door frames, construction materials, processed foods & fruits, furniture, textiles & garments
Imports	Resource based	food & live animals, fertiliser, wood
	Manufactured	construction materials, cement, fertiliser

Source: Adapted from Paul Dominguez (1994).

Development of the subregion will be predominantly export-oriented, exploiting natural resources and using the low-cost labour forces, particularly in labour intensive manufacturing. Collaboration may be possible using the different levels of expertise available within different parts of the BIMP-EAGA to promote joint development of specific industries, for example, fisheries, plantation agriculture and mining.

The lack of strong economic complementarities in the BIMP-EAGA may not seriously constrain the subregion's development because much of the emphasis of the initiative is on jointly developing natural resources. In this area, scope exists to improve international competitiveness by exploiting economies of scale, mainly through horizontally integrated activities (such as jointly developing the fishing industry) and vertically integrated activities (such as processing and marketing resources) and joint tourism ventures. Pooling of resources may help to attract domestic and foreign investment to the subregion. A preliminary analysis of the economic structure and the resource endowments of the BIMP-EAGA suggests prospects for such collaborative efforts may be quite promising.⁴

INTRA-REGIONAL TRADE AND INVESTMENT

As shown in Table 5.5, intra-regional trade between the countries of BIMP-EAGA is very small; intra-regional exports account for less than three per cent of total exports. This means that the development of export-oriented industries in BIMP-EAGA will depend on markets outside South East Asia, principally the USA and North East Asia.

Table 5.5


Exports Between BIMP-EAGA Member Countries, US\$ million, 1993

Country to:	Brunei	Indonesia	Malaysia	Philippines	Subtotal EAGA	East Asia ^a	Total Exports
from:							
Brunei	-	1	2	54	57	521	2 373
Indonesia	43	-	586	285	914	10 559	36 843
Malaysia	188	543	-	480	1 211	19 405	47 121
Philippines	2	44	161	-	207	2 062	11 089
Total	233	588	749	819	2 389	32 547	97 426
Per cent share of total exports					2.5	33.0	100.0

Notes: a East Asia includes: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, China, Hong Kong, Taiwan and South Korea

Source: International Monetary Fund (1994)

⁴ Dillon, H.S. 1994, 'The Proposed East ASEAN Growth Triangle: Opportunities, Constraints and Prospects', p. 1.



In general, the areas in the BIMP-EAGA have not benefited significantly from the large foreign and domestic investment flows that have supported strong economic growth in ASEAN in recent years. This is, in part, because they are far from the major centres of commercial activity in each country; have generally poor infrastructure and have small and narrow economic bases.

Domestic companies are likely to play an important role by investing in the development of the BIMP-EAGA, but this may take considerable time to reach a critical level. Some larger projects, for example developing and processing natural resources, are likely to require significant foreign direct investment.

Anecdotal evidence suggests that the BIMP-EAGA initiative already has increased investment flows to the subregion.

- For example, in the first quarter of 1994, direct investment in Mindanao reached US\$223 million, nearly half of which came from Malaysian and Indonesian investors. Malaysian investment in Mindanao is mainly in a large tourism resort.
- Mindanao-based companies have invested in fish canning facilities in North Sulawesi. In addition, Philippine and Indonesian joint venture efforts are underway to establish a network of cold storage facilities to service fishing vessels in the subregion.

PROSPECTS

Although the BIMP-EAGA is still at a very early stage of development, it has raised the international profile of the subregion and demonstrated the high level of national political commitment to the subregion's development. However, depending on the speed of liberalisation, it may take up to two to three decades to achieve dynamic economic development in this area.

Proposed Cooperation Initiatives

Governments of BIMP-EAGA countries recognise that they need to change domestic policies to promote joint development. Some changes are part of a broader liberalisation process already underway in each country, especially in Indonesia, Malaysia and more recently, the Philippines.

Working groups established in March 1994 to examine four priority areas for cooperation have identified a number of possible initiatives, including:

- cooperation in planning, R&D, training, marketing and information exchange in joint tourism development. A joint tourism development study is proposed, leading to a tourism master plan to promote joint ventures, eco-tourism and cruise packages.
- consolidation of information on fisheries resources, infrastructure, investment policies and opportunities and exchanges of technical personnel in fisheries cooperation.

Some countries have acted on working group recommendations. For example Brunei purchased an aircraft to fly several routes through the EAGA region.



CHALLENGES

As in the IMT-GT, national trade policies, including high tariffs, quotas, price controls and monopolies, particularly for agriculture and resource based products constrain trade between the component areas of the BIMP-EAGA. These policies have a disproportionate impact on the areas of the BIMP-EAGA because each relies heavily on agricultural and resource based industries.

The lack of transparency and delays in the investment approval process, especially in Indonesia but also in the Philippines, also constrain development.

Investors also may be deterred by the poor standard of infrastructure, especially transport, communications and power in many parts of the BIMP-EAGA. Some infrastructure development already is starting to take place. For example, USAID is funding substantial investment in improving infrastructure around General Santos City in southern Mindanao.

Large investments are needed in the transport sector to translate relative geographical proximity into commercial advantage. In addition, a comprehensive plan is needed to develop jointly infrastructure facilities.⁵

Considerable human resource development will also be important if industry is to be attracted to invest in the area. Parts of the BIMP-EAGA are among the least developed areas of ASEAN and considerable public investment will be needed to improve the quality of labour. Large aid inflows to the area will assist this.

Lack of information constrains BIMP-EAGA's development. Little is known of the subregions involved, even, in many cases, in the major commercial centres of each country. Political instability and law and order problems, especially in Mindanao, also contribute to negative investor perceptions. Outstanding territorial disputes also may complicate the realisation of the initiative. Furthermore, problems with piracy in the area may discourage trade and investment.

Overall, there is a need for a 'clear and workable framework ... and effective and adjustable strategy and programs' to promote the success of the BIMP-EAGA.⁶

Issues


The key challenge facing governments is to translate the concept of the BIMP-EAGA into reality.

Issues of national sovereignty and concerns for the equitable sharing of benefits will be heightened, as the areas are at broadly similar stages of development. Each is seeking to upgrade and diversify its industrial base and sensitivities are likely to be high over the subregional division of labour.

Some proposed tariff and immigration changes would be difficult to implement. This is mainly because of the problem of confining the impact of such changes to a specific geographical area. Trade policy liberalisation measures need to be

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⁵ Dillon, H.S. 1994, p. 15.

⁶ Dillon, H.S. 1994.



implemented on a national basis. Policies affecting labour mobility are particularly sensitive in the BIMP-EAGA because of the potential for large scale labour movements and associated social and political problems.

The large number of states and provinces and extensive geographical area of the BIMP-EAGA may complicate the successful implementation of cooperation initiatives. In particular, decision-making processes could be cumbersome because of the number and different levels of governments involved. Tensions between local and central governments also may create difficulties in translating policy changes and programs into action.

As with the IMS-GT and IMT-GT, the BIMP-EAGA faces intense competition for domestic and foreign investment. One of the biggest challenges confronting governments is to make BIMP-EAGA internationally competitive to attract investment. An associated challenge is to manage investment to ensure it meshes with the domestic economy (bringing advantages such as technology transfer) and that the subregion's natural resources are exploited in an ecologically sustainable manner.

AUSTRALIAN INTERESTS

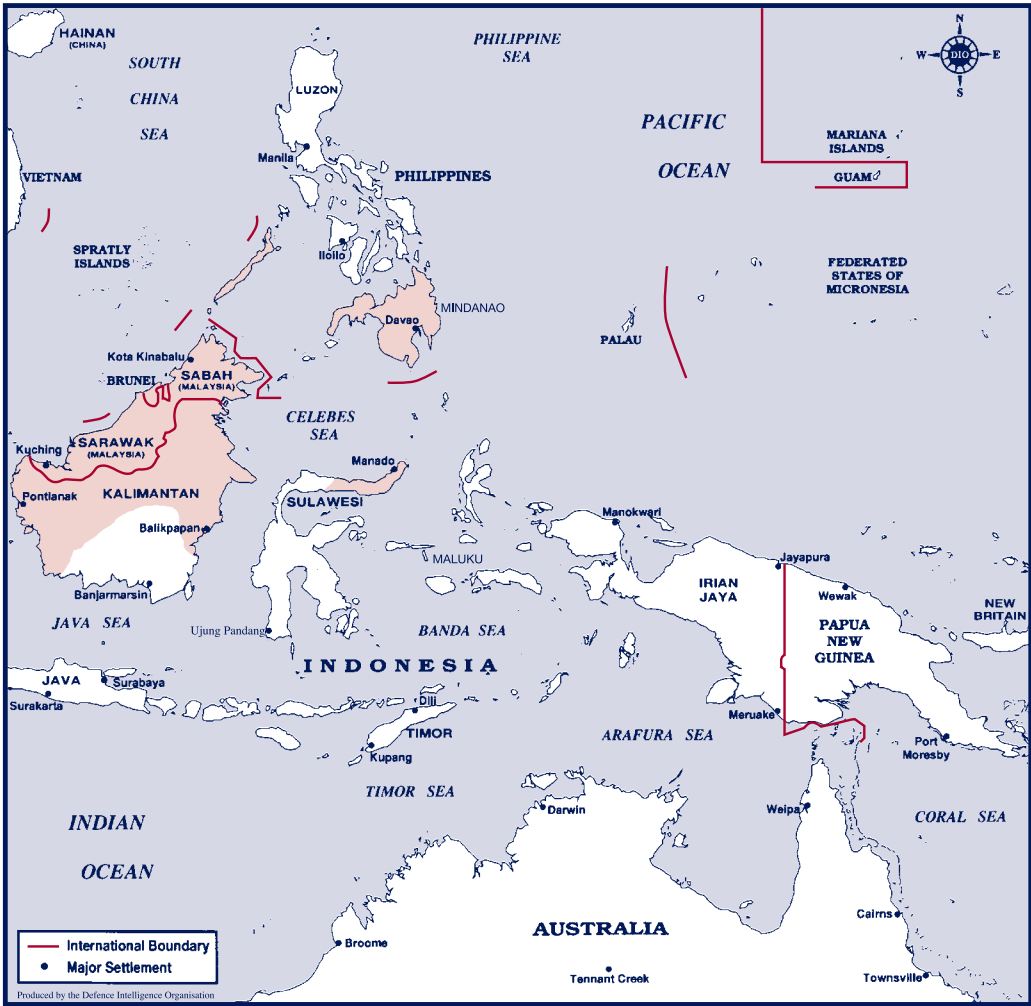
Australia takes a strong interest in the development of the BIMP-EAGA, with the Northern Territory taking a lead in strengthening ties with parts of the subregion. It has signed a MOU with the Government of Indonesia on development cooperation with the eastern provinces. The Indonesian Government is enthusiastic about the Northern Territory's participation in the BIMP-EAGA, although it makes clear that there is no scope at this stage for full membership.

The Northern Territory Government also seeks formal links and strong commercial ties with other BIMP-EAGA members. For example, in August 1995, the Northern Territory and the Philippines signed an MOU covering economic and cultural cooperation, during the visit to Darwin by President Ramos. Further MOUs with Malaysia and Brunei are anticipated before the end of 1995.

The Australian Federal Government is supportive of the Northern Territory's efforts to strengthen ties with the BIMP-EAGA. The Northern Territory has encouraged other Australian states to work with it in broadening participation and the National Trade Strategy Consultative Process is assisting this process.


The Northern Territory Government has sponsored business delegations to the BIMP-EAGA. For example, a delegation of public and private sector representatives attended the inaugural East ASEAN Business Convention in Davao in November 1994 and a Northern Territory delegation attended the Fourth Mindanao Business Conference in General Santos City in September 1995. These delegations often included business representatives from outside the Northern Territory and they support the Northern Territory's desire to act as a focus for Australian business interest in the EAGA region.

Considerable scope exists to develop links based on complementary stages of economic development, similar natural resources and development challenges between the Northern Territory and the BIMP-EAGA. For example, skills and



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*Brunei – Indonesia – Malaysia – Philippines
East ASEAN Growth Area and Northern Australia*



technologies available in the Northern Territory in fisheries management, tourism development (particularly eco-tourism), mining, tropical agriculture, environmental management and appropriate technology such as solar power, clearly could be applied to the BIMP-EAGA.

Private sector links are developing (as the case studies below show). CRA has established gold and coal mining ventures in East Kalimantan through Indonesian subsidiaries. The Northern Territory Chamber of Commerce and Industry has an agreement with its counterpart organisations in Sabah and Davao. It is exploring scope for institutional links with other chambers in the BIMP-EAGA and with the East ASEAN Business Council. The Sultan of Brunei and Malaysian and Indonesian business interests have substantial investments in cattle properties in the Northern Territory.

Trade links also are expanding with some parts of the subregion, although those with other components have fluctuated in recent years. Table 5.6 shows Northern Territory trade with BIMP-EAGA. Trade consists mainly of live cattle exports from the Northern Territory (see Table 5.7), although most of the cattle are actually sourced from Queensland. This trade could provide a solid foundation on which to expand commercial ties, for example, providing related services and management expertise.

Case Study One - Australian Training to Improve the Subregion's Meat Industry

A Darwin-based husband and wife team, operating under the name 'Asian Experience', provides an in-country, integrated training package to live cattle importers in Sarawak, Brunei and Mindanao (and other parts of the region currently outside BIMP-EAGA). Training begins with identifying markets and extends to techniques to produce the cattle that those markets demand, nutrition and feed lot management, abattoir processing and packaging. Asian Experience also designs feed lots and abattoirs and capitalises on Darwin's proximity to source meat-processing and other equipment from Australia as an agent for BIMP-EAGA clients.

Asian Experience's operations in the subregion are expanding steadily. The firm is now looking at bringing clients to Australia for training in all aspects of a modern meat handling and processing business, including refrigeration, transport and distribution, inventory control and the use of appropriate computer software. Wholesale and retail work experience will form part of this new training package.

Case Study Two - Live Cattle Exports from Queensland and the Northern Territory

Austrex, a Darwin-based Australian company, has been exporting live cattle to South East Asia, including areas of BIMP-EAGA, for over twenty years. The company ships 45 000 head of cattle per year to the region. At least half come from Queensland. The trade is currently worth around A\$40 million and is growing rapidly. Mindanao is an area of particularly high potential.

Austrex charters ships to transport the cattle to Asian markets, but has not resolved the problem of bringing the ships back empty to Darwin. This is currently seen as an unavoidable business cost.

Austrex has a number of local and Australian-based representatives stationed in the region. The company provides training to importers in areas like feed lot management as part of its sales package.

Case Study Three - Recycling Computers and Telecom Equipment

Originally a precious metal dealer, Hi-Technology Metal Recyclers (HMR), with its headquarters in Sydney and branches in every state and territory capital including Darwin, has captured a niche in recycling computers and telecom equipment to Mindanao (and other parts of the Philippines and East Asia). HMR found that the equipment was more valuable intact than merely as a source of precious metals. The company now purchases large quantities of used PCs and telecom equipment in Australia and the USA and ships them to its joint venture recycling operation in Manila. There, the equipment is refurbished, then sold through joint venture outlets in Davao and Cagayan de Oro in Mindanao. The business is worth around A\$2.5 million per year and is expanding rapidly: 'we can't keep up with the demand'.

HMR is enthusiastic about the long-term growth prospects for the BIMP-EAGA. HMR has invested a significant amount in its Philippines operations and has established an effective network there with links to areas of the EAGA. It now is keen for its Darwin branch to act as an entrepot for other Australian companies seeking to export plant and equipment and general merchandise to the area.

Table 5.6

Northern Territory Trade with BIMP-EAGA, A\$'000

	1989-90	1990-91	1991-92	1992-93	1993-94
EXPORTS					
Brunei	3 915	3 235	5 233	4 462	4 149
Indonesia	85 006	234 834	261 173	143 558	69 108
Malaysia	6 808	9 077	9 972	7 570	6 861
Philippines	17 558	2 906	11 295	22 519	30 856
Total BIMP-EAGA	113 287	250 052	287 673	178 109	110 974
IMPORTS					
Brunei	4	16	-	2	3
Indonesia	2 037	2 276	3 909	5 982	5 360
Malaysia	5 998	3 826	4 191	4 500	6 208
Philippines	1 710	1 228	854	137	85
Total BIMP-EAGA	9 749	7 346	8 954	10 621	11 656

Source: Australian Bureau of Statistics (1995).

Table 5.7

Australian Live Cattle Exports to BIMP-EAGA Countries, 1990-95

	1990	1991	1992	1993	1994	1995 ^a
Number						
Brunei	5 427	7 223	7 988	8 007	7 807	13 018
Malaysia	23 127	25 284	27 787	22 959	30 747	50 558
Indonesia	9 210	12 591	24 867	58 534	122 778	339 932
Philippines	22 249	20 932	59 578	94 465	127 194	288 936
Total BIMP-EAGA	60 013	66 030	120 220	183 965	288 526	692 444
Value (A\$ million)						
Brunei	3.6	3.7	4.0	3.9	5.2	7.6
Malaysia	9.0	9.6	10.5	9.5	15.2	28.4
Indonesia	5.6	5.0	9.3	24.5	61.2	188.1
Philippines	8.3	8.3	23.5	34.4	50.4	118.4
Total BIMP-EAGA	26.5	26.6	47.2	72.2	132.0	342.5
Per cent of total Australian live cattle exports						
Brunei	5.6	5.8	5.2	3.8	2.6	1.8
Malaysia	23.7	20.2	19.9	10.9	10.1	7.0
Indonesia	9.4	10.1	16.1	27.9	40.3	46.8
Philippines	22.8	16.8	38.5	45.0	41.8	39.8

Notes: ^a January to September 1995

Source: Australian Meat & Livestock Corporation (1995).

AFTA-CER COOPERATION

Concurrent with the development of the BIMP-EAGA and Australia's growing interest in it, Australia has actively developed links between the ASEAN Free Trade Area (AFTA) and the Australia New Zealand Closer Economic Relations Trade Agreement (CER). AFTA-CER cooperation primarily aims to enhance trade and business links through trade facilitation projects and policy dialogue. In the medium term and as the BIMP-EAGA develops further, there may be opportunities to undertake projects through AFTA-CER links. Among other things, this would heighten Australia's interest in the development of the EAGA.



OUTLOOK

Although at a very early stage of development and facing a number of challenges, the BIMP-EAGA should enhance economic interaction and collaboration between its component areas, particularly in the medium to long term. Government and business representatives in the BIMP-EAGA acknowledge the area could take up to twenty to thirty years before the anticipated dynamic economic development is achieved.

Prospects for achieving these longer term development objectives will depend mainly on the strength of government commitment and on the willingness to translate this into effective action. The active support of the private sectors of each of the countries involved will also be required.

The benefits of the BIMP-EAGA are unlikely to be realised within a short time as the areas are generally starting from a low level of development. However, opening up and expanding subregional markets, promoting joint ventures and improving competitiveness in export markets will all help to promote development in the medium to long term.

The areas involved in the BIMP-EAGA have significant and as yet largely untapped resources and therefore considerable potential for development. The demand for these resources is likely to increase significantly in the next decade as a result of continued rapid growth and industrialisation in East Asia. By improving infrastructure, upgrading human resources, harmonising regulations and reducing barriers to the flows of factors of production across national borders, the BIMP-EAGA initiative should help to accelerate the realisation of this potential.

ISSUES FOR ASEAN GOVERNMENTS

Political and economic considerations have motivated the formation of growth triangles in South East Asia. The policies pursued by participating ASEAN governments in promoting these zones will have significant implications for overall policy development in the countries involved. The major policy issues facing participating governments are discussed below.

MAJOR ISSUES FOR GOVERNMENTS IN THE DEVELOPMENT OF GROWTH TRIANGLES

- Intense competition for investment
- Finance for infrastructure development
- Complex distributional issues
- National sovereignty
- Centre/state relations
- Inter-state/province rivalry
- Regional versus national policies
- Security

Intense Competition for Investment

One of the motivations for governments to form growth triangles is that they are expected to attract foreign investment. However, competition for these funds may become increasingly intense as more countries seek to attract foreign direct investment to promote economic development.

Different growth triangles also may compete with each other for investment, as could separate component areas of the same growth triangle. For example, Thailand is involved in a growth triangle initiative in the north, the Greater Mekong Growth Area (see Appendix 1), which could divert attention, and investment, from the IMT-GT.

This could make it difficult to achieve the rapid development hoped for in growth triangles and may result in counter productive bidding between countries and growth triangles in the form of tax and other concessions offered to potential investors. Governments will need to be careful to assess the expected national costs and benefits of any new infrastructure expenditures and fiscal incentives to ensure that these will enhance national welfare.



Finance for Infrastructure Development

To compete for foreign investment to develop the IMS-GT and to realise development objectives for both the IMT-GT and BIMP-EAGA, ASEAN governments will need to invest substantial amounts of capital in infrastructure in these subregions. The competing demands for scarce resources from other regions may hamper the implementation of ambitious infrastructure and industrial development plans in some growth triangles.

Investment is needed in both 'hard' infrastructure such as roads, ports, power and telecommunications, as well as 'soft' infrastructure such as human resource development. Adequate infrastructure of both kinds is important if growth triangles are to succeed.

Infrastructure requirements in growth triangles will impose substantial new demands on national budgets, complicating the existing distribution of central government spending between individual states or provinces. For example, in the fiscal year 1995, Thailand set aside 30 million baht to prepare a master plan to develop the southern provinces (including parts of the IMT-GT) in addition to funds allocated to decentralise industry and improve infrastructure in the area.

Governments are hopeful that the private sector will finance and develop many infrastructure projects. However, it will be difficult to attract significant private sector investor interest to projects with long gestation periods or ones located in economically backward hinterlands. This will apply particularly to projects catering for a higher capacity (because of high levels of projected growth) than can be justified in the short term. These will require larger investments and a willingness to sustain initially lower rates of return.¹ It therefore will be likely that governments will have to undertake these investments themselves if they believe that they are essential.


In addition, governments in many South East Asian countries still need to come to terms with pricing, ownership and other complex policy issues associated with the private sector providing infrastructure. If infrastructure service prices are held below market levels to promote government objectives (such as decentralisation) private sector operators will not be willing to make investments in such projects.

The need for infrastructure finance will place considerable pressure on development agencies such as the ADB and World Bank, and bilateral aid programs. These agencies also will be forced to compare the economic and financial viability of such projects and those in other regions of recipient countries.

Complex Distributional Issues

The operation of growth triangles raises complex distributional issues because they involve parts of a number of different sovereign countries, each with separate motivations for becoming involved, and in many cases, with different expectations regarding benefits.

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¹ Kumar, Sree 1994, 'The Singapore-Johor-Riau Growth Triangle: A Model of Subregional Cooperation', p. 214.



This is particularly important in sharing the benefits that arise from participating in a growth triangle. In the IMS-GT, for example, Indonesia and Malaysia believe that Singapore benefits most from the arrangement because Singaporeans finance most of the industries that employ relatively low wage Indonesians and Malaysians. If this popular, intuitive belief is not refuted by solid empirical evidence showing the undoubted benefits to all participating countries, it could reduce political support and the willingness to implement new subregional initiatives, as well as complicate bilateral relations.

In the IMT-GT, these potential problems were highlighted by initial Indonesian concerns that the ADB study of the IMT-GT development project was slanted in Malaysia's favour and did not emphasise sufficiently Indonesia's infrastructure development needs.

In the BIMP-EAGA, the areas involved (except for Brunei) are at a similarly low level of economic development and therefore are likely to be sensitive about the distribution of the benefits of the growth triangle. They will be eager to obtain an 'equal' share of the benefits of major investments or aid projects, and minimise their share of the costs.

The areas in the triangles are likely to be sensitive to the way each initiative is promoted, particularly in relation to the planned division of labour. The development objectives of each area of the IMT-GT, for example, envisage rapid industrialisation and diversification and high levels of technology transfer. None of the areas wants to be a low-cost or labour intensive, low value-added base for activities. However, at their current level of development, their expectations may not be wholly realistic.


Inter-State/Province Rivalry

There also may be domestic concerns about the inequitable distribution of the benefits of growth within a specific part of a growth triangle. In southern Thailand, for example, Songkhla and Hat Yai, which form part of the IMT-GT, are considerably more developed than other southern provinces. Similarly, allocating resources to develop component areas of growth triangles could divert funds from areas outside, increasing tensions between provinces/states that are part of growth triangles and those that are not. If growth triangle initiatives succeed in promoting development in the subregions involved, this may also exacerbate problems of regional income disparities, rather than reduce them.

National Sovereignty

For growth triangles to operate as integrated entities, policies applying in separate component areas, such as those controlling investment or labour movements, need to be coordinated. The current lack of coordination and significant barriers to investment, goods and labour movements within the subregions, hamper the development of growth triangles. To correct this could involve some diminution of national sovereignty, which some participating governments may not be prepared to accept at this stage.

Cross-border differences in regulations can have unforeseen effects. For example, where one country has stricter environmental standards than its neighbour in the area of forestry, investment may flow to the more laxly regulated region,



prompting the more strictly controlled neighbour to lower standards, possibly hastening the demise of sustainable forestry in both countries.

Concerns about national sovereignty could arise in metropolitan spillover growth triangles such as the IMS-GT. Hinterland areas, for example Johor, may begin to function more as extensions of the core, Singapore, than as part of Malaysia, as economic dependence on the core increases. This is evident in the reluctance of the Malaysian and Indonesian governments to grant significant autonomy to the areas in the IMS-GT. Similarly, in Indonesia, some have expressed concern about the degree to which Singapore dominates Batam's development.

Problems could arise if component areas of growth triangles begin to view their interests as being more closely tied to developments in adjacent participating countries, than in their own. This could work against the initial objective of central governments to use growth triangles such as the IMT-GT and BIMP-EAGA to promote development of economically lagging peripheral areas. The ultimate aim instead is to integrate these areas more firmly within the national economy and reduce potential political disunity arising from resentment of development disparities. Economic development also can lead to greater demands for freedom and decentralised decision making to cope with specific local conditions.

Centre/State Relations

The establishment of growth triangles is likely to involve highly complex political relationships and negotiation. National, provincial and local governments will be involved and this coordination of their disparate interests could complicate decision making and the implementation of policy changes or new programs within growth triangles.

Decision making in most South East Asian countries is still highly centralised. Investment policies, immigration, customs regulations, property rights and land ownership are normally the responsibility of central governments. Each country has extensive regulations in these areas, and these have not been designed with cross-border cooperation in mind. Harmonisation of such regulations will need to be carried out between governments at a relatively high level.²

The question of increased local autonomy in decision-making is a sensitive one, particularly because of the separatist movements that are active in some parts of growth triangles. Central governments generally have been slow to respond to increased pressure from state and provincial authorities for greater independence. In addition, there is often the difficulty of delineating responsibilities between agencies at different levels of government. Central governments have to approach development issues from a broad national perspective to ensure growth triangle initiatives contribute to overall national development and do not simply divert development from one area to another. Local governments, on the other hand, are not bound by national considerations and are free to take a more parochial approach.

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² Kumar, Sree 1994.



Regional Versus National Policies

The proposed policy changes required to promote the free flow of factors of production within growth triangles also raise a number of issues for governments.

For example, trade policies are usually national in scope. Governments are likely to meet resistance if they attempt to reduce tariffs for products traded within a growth triangle without extending these initiatives to other parts of the country. Furthermore, the problems associated with monitoring and controlling trade flows for entire subregions are much greater than for a designated free-trade zone within a subregion, so significant ‘leakage’ of duty free goods would be likely.

The liberalisation of labour flows on a subregional basis poses similar challenges to governments. For example, how are governments to limit the inflow of foreign workers to a specific subregion? Large-scale inflows of unskilled labour from other countries could undermine or delay structural adjustment as well as create significant social upheaval and even harm the environment. However, inflows of workers from other parts of the participating countries (or expansion of zones to include other underdeveloped regions) should be permitted so that the benefits of the growth triangle can be spread more equitably and the comparative advantage of labour abundant parts of growth triangles maintained for longer than would otherwise be the case.

In theory, the free movement of the factors of production could also undermine one of the key conditions supporting a growth triangle’s existence; economic complementarity. For example, the free movement of labour from lower to higher wage areas of growth triangles could, theoretically eventually eliminate wage differentials.

Illegal migration is already significant in parts of the BIMP-EAGA; there are large numbers of Indonesians from Kalimantan and Filipinos from Mindanao, for example, working illegally in Sabah and Sarawak, particularly in tourism, transport, forestry and plantation agriculture. However, this may not pose a serious threat to the long-term success of the BIMP-EAGA, as differentials in wage rates and complementarities in other factors of production are not considered central to that growth triangle’s viability.

Security

In several cases, governments have encouraged economic development in particular regions by using growth triangles to reduce the underlying security tensions from separatist movements, for example. However, the security problems experienced in these areas are likely to complicate prospects for attracting the investment needed to promote development.

Unresolved historical or territorial disputes between parts of some growth triangle initiatives could affect the successful implementation of cooperation measures. For example, the Philippines and Malaysia have conflicting claims over Sabah. On the other hand, increased economic interdependence between the components of the various growth triangle initiatives could promote stability and greater security.



OUTLOOK

As growth triangles are still at a relatively early stage of development, governments have only begun to face the complex and difficult issues that they generate. The long-term success of growth triangles will depend on the willingness and ability of governments to address and resolve at least the major issues that otherwise could hamper development.

OPPORTUNITIES FOR AUSTRALIA

As most growth triangles are at an early stage of development, lack infrastructure and have narrow industrial bases, it may take time for significant commercial opportunities to emerge. Initially, growth triangles also will have to compete for business with metropolitan areas, where infrastructure and industry are well developed. Business risks, actual and perceived, may be unacceptably high.

Despite this, the Australian economy and those of a number of growth triangle components are strongly complementary, and South East Asian governments have expressed their support for greater Australian involvement in South East Asian growth triangles. Australia will have investment and export and import opportunities in growth triangles, but these opportunities will vary depending on specific locations.

Australian companies will need to develop a medium to long-term approach towards developing ties with growth triangle areas. In some growth triangles, for example, Australian companies face a range of tariff and non-tariff barriers and investment restrictions that will take time to dismantle.

AUSTRALIA'S TRADE WITH ASEAN

Australia's economic ties with ASEAN countries have expanded strongly during the 1990s. (See Table 7.1.) The development of growth triangles in ASEAN has the potential to boost Australia's trade with the region still further.

FUTURE MARKETS

As they develop, growth triangles will present a range of trade and investment opportunities for Australian business. Australia has products, technology and expertise that can be applied directly to the needs of growth triangles. As industries in growth triangles expand and upgrade, Australia's opportunities to increase imports from these areas should increase. Growth triangles can be viewed as niche markets, developing at different rates and requiring different inputs and approaches.

ASEAN governments may introduce measures to promote the development of growth triangles, for example, to improve the overall investment and trade climate through streamlining and liberalising some trade regulations. This action may open new opportunities for Australian business, as will the broader process of economic development in ASEAN countries.

Table 7.1
Australia's Trade with ASEAN, A\$ million, 1990-94

	1990	1991	1992	1993	1994
Exports to:					
Brunei	13.8	16.4	37.7	58.1	53.8
Indonesia	1 355.1	1 427.8	1 728.5	1 812.7	2 013.8
Malaysia	982.6	1 057.0	1 140.0	1 572.9	1 956.2
Philippines	468.1	477.6	547.7	643.9	723.9
Singapore	2 366.9	2 934.6	3 768.1	3 276.6	3 454.2
Thailand	608.5	698.6	1 081.6	1 251.6	1 368.0
Total ASEAN	5 795.0	6 612.0	8 303.6	8 615.8	9 569.9
Total Exports	50 892.3	53 717.4	58 399.5	62 764.5	64 984.0
ASEAN share (%)	11.4	12.3	14.2	13.7	14.7
Imports from:					
Brunei	43.0	71.1	72.6	26.8	0.3
Indonesia	521.8	934.5	1 243.0	1 215.9	1 038.0
Malaysia	653.9	775.5	966.4	1 036.1	1 220.0
Philippines	130.4	137.9	164.9	185.5	231.3
Singapore	1 183.9	1 349.4	1 329.0	1 602.8	2 065.3
Thailand	479.8	583.4	715.8	766.8	876.1
Total ASEAN	3 012.8	3 851.8	4 491.7	4 833.9	5 431.0
Total Imports	49 806.4	49 673.5	55 507.3	62 403.7	68 102.7
ASEAN share (%)	6.0	7.8	8.1	7.7	8.0

Source: Department of Foreign Affairs and Trade (1995).

AREAS OF EXPORT POTENTIAL IN GROWTH TRIANGLES

- Infrastructure development
- Transport links
- Human resource development
- Tourism development
- Agriculture (especially agricultural technology and agribusiness)
- Mining/energy
- Industrial development



Infrastructure Development

High levels of investment in infrastructure will be needed in growth triangles to promote their development. Depending on the financial commitment by governments in South East Asia, infrastructure development may create opportunities for Australia to undertake infrastructure projects and provide consultancy advice. For example, some Australian companies and agencies already are working in land management and land titling in ASEAN growth triangles.

However, growth triangle governments will need to guarantee they do not discriminate when they award contracts. For example, the IMT-GT includes a proposal to build a new power plant at Satun in southern Thailand. Both Indonesia and Malaysia pressured Thailand to give IMT companies preference in bidding to build the new plant. Thailand however refused.

Developing power and telecommunications infrastructures will be priority activities in growth triangles. Here, Australian companies can offer internationally competitive equipment and expertise. The construction of housing, offices, and plants in industrial estates also should create opportunities for Australian business. For example, a South Australian company recently established a factory to manufacture stained glass windows for executive housing estates in Northern Malaysia in the IMT-GT. The company had exported the windows from Australia, but when demand far outstripped capacity, the company set up an operation in the growth triangle.

Transport Links

Another priority is to strengthen transport links in the growth triangles. Geographical proximity and the need for fast, regular transport links make fast ferries or catamarans a key transport mode. Australia has internationally acknowledged expertise in the design and manufacture of such craft.¹

Australia also has leading-edge technology and management expertise in revitalising and developing shipping ports. A number of key ports, for example Brunei's Muara port, are to be upgraded as part of growth triangle initiatives.² Similarly, Australian technology in road safety, railway signalling and road and rail systems could be applied in growth triangles.


Human Resource Development

ASEAN governments will want to develop their human resources base in growth triangles. This will create new opportunities for Australia to export education and training (particularly vocational training) and health services.³ Training in services industries is likely to become important. Australian suppliers with some

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¹ A West Australian company, Wavemaster, has set up a joint venture in the IMT-GT with the Penang Shipbuilding Corporation to supply high speed ferries to Penang and the surrounding region.

² See Chapter 5 on the BIMPE-EAGA for details.

³ There is a considerable and growing presence of Australian education providers in Penang, with major twinning arrangements involving The University of Sydney and Melbourne's RMIT already established.



understanding of local languages and a willingness to put agents in place on the ground may benefit from these opportunities.

Tourism Development

Each ASEAN growth triangle plans to develop tourism, particularly eco-tourism, for domestic and international visitors. Australian companies have developed considerable expertise in eco-tourism. Furthermore, the fragile environments of many growth areas will make careful environmental management essential, if tourism development is to be sustained. Again, Australia has considerable expertise to offer.

In many parts of the IMT-GT and BIMP-EAGA, tourist facilities from international five-star resorts to more domestically focused and modest holiday options could be developed. Australia has expertise in the design, construction and management of resorts and their amenities. In 1995, Thiess Contractors were awarded a \$20 million contract to design and construct the first stage of a \$56 million resort development in Bintulu, Sarawak in East Malaysia, part of the BIMP-EAGA.⁴


There are also opportunities to develop tourism between Australia and parts of some growth triangles. For example, Jetset of Australia and Travelway Tours of the Philippines have agreed to promote tourism between eastern Australian and Mindanao.

Natural Resource Development

In the IMT-GT and BIMP-EAGA, much of the initial development will come from the increased exploitation of natural resources in the agriculture, mining and energy sectors. This should present opportunities for cooperation between Australia and growth triangles, particularly in the fisheries and livestock industries, as the following four initiatives show:

- a senior fishing gear technologist from the Northern Territory Department of Primary Industries and Fisheries is advising the BIMP-EAGA working party on fisheries cooperation on sustainable fisheries management techniques.
- a Queensland-based company is designing, building and supplying cold storage facilities in the BIMP-EAGA.
- an Australian company is involved in sheep breeding and testing in North Sumatra. This is part of a wider initiative to provide training and services to improve livestock management techniques.
- many cattle exported from Australia to the BIMP-EAGA enter feed lots that use agricultural waste and/or pastures available from year-round rainfall. This coincides with the north Australian dry season, when feed is scarce. Needs are now emerging for Australian support, both capital and

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⁴ *International Business Asia*, 9 June 1995, p. 1.



technology, to provide abattoirs and associated training to lift sales to the quality meat market and ultimately, to develop exports to destinations beyond the EAGA.⁵

Efforts in growth triangles to increase food production will create opportunities for Australian agribusiness companies in producing, processing and marketing horticultural produce.

Opportunities exist for greater Australian involvement in minerals and energy exploration and development. Australian mining companies already have invested substantially in parts of the BIMP-EAGA, for example, CRA in gold and coal mining in Kalimantan, and Western Mining in a new copper mining venture in Mindanao. Australia can provide environmental protection training programs, as the US\$1 million agreement between Western Mining and the provincial government of South Cotabato in the southern Philippines shows.

Industrial Development

Growth triangles aim to promote industrial development. This may create opportunities for Australian suppliers of capital equipment and technology, particularly as countries seek to upgrade their industrial bases into higher value-added, more technologically sophisticated activities.

In the IMT-GT and BIMP-EAGA, short to medium term industrial development is likely to be based mainly on processing natural resources, while light manufacturing activities are likely to expand in the medium to longer term. In the IMS-GT, industrial development increasingly will be based on higher technology manufacturing and services.


Potential in this area is reflected in the growing share of elaborately transformed manufactures (ETMs) in Australia's trade with ASEAN. For example, Australian exports to Indonesia of food processing equipment are expanding. Other opportunities for Australian suppliers of raw materials to support the industrialisation process may emerge, for example in the cotton and wool textile industries.

In the long term, if growth triangles succeed in promoting industrial development, the resulting higher incomes of growth triangle populations are likely to create new domestic markets for both basic and sophisticated consumer goods.

AusAID's Role

Australia's bilateral aid program, which aims to promote sustainable development in developing countries, could provide opportunities for Australian companies to establish business links through development projects. In Indonesia, Australia disbursed over A\$135 million in aid in 1994-95, making it Australia's second largest aid program. In the same period, development cooperation activities in the Philippines were valued at A\$71 million, in Vietnam A\$63 million, and in Thailand A\$42 million.

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⁵ See case studies in the Australian Interests section of Chapter 5 on the BIMP-EAGA for details.



Aid projects in the BIMP-EAGA, for example, would need to be consistent with the focus of bilateral aid programs with each of the countries concerned. This focus includes technical and vocational education and training, health services, environmental protection and physical infrastructure projects. There is a subsidiary focus on adapting and transferring Australian technology to meet local market needs, and in the longer term, to promote commercial links and partnerships.

CONSTRAINTS

Australia's size and small population, and the concentration of its commercial sector in the major southern cities, pose a number of difficulties for trade, particularly with the less developed areas of the IMT-GT and BIMP-EAGA. Exporters in these markets face many difficulties, and their problems also affect the capacity of Australia to import from its close neighbours.⁶

Shipping services to South East Asia from Australian ports other than Sydney and Melbourne are expensive and irregular.⁷ Tasmania has no direct shipping service to South East Asia, and exporters have to rely on transshipping in interstate ports. Much of Australia's sea freight to South East Asia passes through, or is transhipped at, the port of Singapore because of cost and more regular shipping schedules.

Private operators in the Northern Territory run shipping services to eastern Indonesia and other parts of the BIMP-EAGA, mainly to serve the live cattle trade. However, these services run under capacity on the return leg to Australia. Innovative loading methods may resolve this problem, such as loading cattle in Australia for export to South East Asia and carrying cement on the return leg.⁸


Air freight is expensive and available space can fluctuate seasonally. Small and medium sized firms exporting small (or irregular) shipments to South East Asia are in a weak position to bargain for space during the seasonal peaks. Goods destined for growth triangles have to be transhipped as air links are not well developed.

Commercial relations in Asia operate largely on a system of personal contacts and trust, and require a long-term approach. It is well known that Australian company managers need to visit South East Asian markets regularly over a long period to strike deals and establish and maintain personal contacts. For small or medium sized companies, these visits can be very costly, in resources expended and the opportunity costs of a manager being away from the business place.

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⁶ For example, see the joint NSW Ministry of Economic Development/KPMG Peat Marwick publication, *Making It Happen In NSW*. It is available from KPMG Peat Marwick by contacting the NSW Marketing Unit on telephone 335-7308.

⁷ See for example, Dick, Howard and Mao, Hidayat 1994, *The Challenge of Logistics: Shipping Services between Australia and Indonesia*, East Asia Analytical Unit Working Paper No 3, which examines the extent and nature of shipping links, including the value and quantity of trade, constraints hindering economic cooperation, and potential developments in shipping infrastructure in Indonesia and Australia. The Office for Northern Australia is also examining shipping issues.

⁸ See Austrex case study in the Australian Interests section of Chapter 5 on the BIMP-EAGA.



The size of the Australian economy and its relative purchasing power when compared to other trading partners is an important issue for South East Asian countries. Australia's economy is only slightly smaller than ASEAN's (on a GDP rather than a Purchasing Power Parity basis), but its population size (around 19 million) limits its demand potential. This limits the scope for growth triangles to export their products to Australia, and may inhibit their capacity to import from Australia.

BUSINESS CHAMBERS

Business chambers in Australian states and territories and in South East Asia can facilitate trade and economic activity.

Some chambers run export councils (for example, the Northern Territory Export Council) and others administer a whole range of state-based bilateral trade councils within state organisations. For example, the South Australian Government and employers set up co-located facilities for each of the bilateral councils. Chapters of the Australia-Indonesia Business Council which provide input to the national bodies can be found in all Australian states.

The specialist chambers debate common issues and problems and seek solutions at both national and state levels. Resourcing of 'international trade directories' and 'export programs' by national and state-based bodies has increased. These changes reflect a more export-oriented Australian trade culture which bodes well for increasing Australian trade interaction globally, with Asia in particular, and potentially with growth triangles.

CONTACTS

The dynamic nature of growth triangles means that it will be important for Australian companies to continue to monitor their development and keep informed of business opportunities. A list of possible initial contacts for Australian companies interested in exploring business opportunities in growth triangles in ASEAN is in Appendix 3.

Chambers of commerce, government development agencies and bilateral business councils may be useful sources of contacts and information. Australian embassies and high commissions and Austrade offices in ASEAN capitals also monitor the development of growth triangles.



CONCLUSIONS AND STRATEGIES

The development of links between Australia and growth triangles in South East Asia is consistent with the broader national objective of strengthening overall engagement with Asia. Governments in ASEAN countries have strong political, economic and security motivations to promote the development of these outlying states and provinces.

IMMEDIATE PROSPECTS

The IMS-GT is the longest operating of the ASEAN growth triangles and the only one so far with a substantial record of *commercial* (as against *political*) achievement. It currently faces a number of challenges to its development, which may affect its capacity to maintain its currently high foreign direct investment inflows. However, it is proving to be a dynamic and flexible grouping and is recording sustained strong growth.

Development of the IMT-GT is at an early stage, but the ADB's extensive studies suggest it has considerable growth potential.


Development of the BIMP-EAGA is also at a very early stage. Its potential lies mainly in its extensive and largely untapped natural resources. With continued rapid growth and industrialisation in East Asia, demand for these resources is likely to increase strongly in coming years, which may provide the subregion with long term growth potential.

LONGER TERM OPPORTUNITIES

Opportunities in growth triangles will not emerge overnight. Long term commitment by governments, private sector investors and multilateral lending agencies will be needed to realise the benefits. The process of identifying and implementing projects and policies to promote links within the subregions will need to be ongoing. Similarly, Australia will need to sustain efforts over a long period to strengthen links with the growth triangles. Australia also will need to be flexible in adapting to rapidly changing conditions and opportunities, as growth triangles are essentially informal and dynamic.

STRATEGIES TO PROMOTE LINKS

The private sector will need to drive the development of ASEAN growth triangles and the development of links with Australia. ASEAN governments and federal and state governments in Australia will, nevertheless, have an important facilitating role.



The Australian Government will need to match the efforts of ASEAN governments to boost the performance of growth triangles with further microeconomic reforms to sharpen Australia's international competitiveness. These include promoting structural change, reducing trade barriers, eliminating inefficiencies in transport sectors, particularly shipping, streamlining investment regulations and improving passport, immigration, and visa processing, particularly for business travellers. Australia's Department of Immigration and Ethnic Affairs currently is looking at electronic visa processing and is trialing in the Northern Territory a scheme to help promote links with the BIMP-EAGA. This allows governments and selected businesses in Australia to identify individual overseas business people as 'nominated visitors' for facilitated entry to Australia.

The Federal Government also has an important role in negotiating to reduce or remove trade and investment barriers that impede commercial ties between Australia and ASEAN. This includes using the existing bilateral dialogue processes and associated working groups, AFTA-CER discussions, multilateral organisations such as the World Trade Organisation (WTO) and regional institutions such as APEC. This will help to create a more favourable overall environment for Australia to expand links with ASEAN growth triangles.


STRATEGIES TO DEVELOP COMMERCIAL LINKS BETWEEN AUSTRALIA AND GROWTH TRIANGLES IN SOUTH EAST ASIA

- Promote information flows
- Encourage networking
- Promote Australia's strengths
- Improve the use of development assistance agencies
- Support state and territory initiatives
- Involve private sector business organisations

Promote Information Flows

More information on ASEAN growth triangles and the states and provinces involved in them, is needed to increase awareness in Australia of possible business opportunities. This information needs to reach relevant Australian industry associations and peak industry bodies to promote its wider dissemination to Australian businesses.

Such information includes statistical data, basic market intelligence and details of essential business contacts. Australian government agencies and private sector bodies need to monitor the development of growth triangles and regularly update information on them as they evolve. This is particularly the case if Australian companies are to make informed commercial choices between alternative investment locations and trade opportunities.



Scope exists for a cooperative program between Australian (specifically the Australian Bureau of Statistics) and ASEAN state or provincial statistical agencies to produce accurate and timely statistics on growth triangles. A next step could be to establish a cooperative computer database providing updated economic and commercial information. Such a service might be offered by business chambers.

Encourage Networking

Australian companies will need to position themselves by establishing networks with business and government at the provincial/state and central level if they are to succeed in exploiting opportunities emerging in growth triangles. These networks will complement the official ones established by the Australian Government with ASEAN members, bilaterally and multilaterally.

Governments can promote better networking with carefully targeted investment and trade missions. Australian Government and private sector business missions to ASEAN countries could be encouraged to include visits to states and provinces participating in growth triangle initiatives and business representatives from those states and provinces could be encouraged to visit Australia. As an example, the Australian Ambassador to Thailand recently accompanied a small Australian business delegation on a visit to areas of southern Thailand within the IMT-GT.

Business and industry chambers and councils are important networking forums. Specific business councils comprising the business sectors of the IMT-GT and BIMP-EAGA hold regular meetings and conventions, often in association with other ASEAN governmental meetings. Hundreds of ASEAN business representatives attend and Australian business people also participate.¹


The 1995 session of the Australian Government's annual National Trade and Investment Outlook Conference (NTIOC) will include a special focus on the BIMP-EAGA involving participants from the subregion and the Northern Territory, among others. This initiative, which will help lift the profile of ASEAN growth triangles with Australian business, could be duplicated in other business forums in Australia.

Around 600 business representatives from BIMP-EAGA countries attended the Northern Territory's annual business expo in June and July 1995, making it the largest event of its type in Australia. Participation in this annual forum is not restricted to Northern Territory businesses; others can use it to network and link up with partners from the BIMP-EAGA.

The focus on economic complementarities between Australia and ASEAN growth triangles highlights the importance of networking across complementary industries, as well as within industries. Collaboration within Australian industry and with international counterparts, including those in growth triangle areas, and with competitors will be important.

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¹ See Australian Interests sections in Chapter 4 on the IMT-GT and Chapter 5 on BIMP-EAGA.



Governments can encourage Australian companies to develop consortia type arrangements or strategic alliances to enable them to undertake larger projects such as Build, Own, Operate and Transfer (BOOT) infrastructure projects. For example, Singaporean and Australian companies could collaborate on projects in growth triangles as part of the *Strategic Linkages Initiative* being promoted by the two governments.

Promote Australia's Strengths

Australia needs to promote its strengths in South East Asia more effectively.

It is important that the information flows discussed previously be two-way. ASEAN countries need to know what relevant skills, technologies, products and services Australia has to offer the many projects (actual and proposed) in growth triangles. In particular, Australia should participate in efforts in growth triangles to promote human resource development and technology transfer.

Many of the key areas of demand in ASEAN are in services that in Australia are supplied by the public sector. These include agricultural development, fisheries and environmental management, education, power and water utilities. This suggests that some service exports to growth triangles could be supplied by joint public/private sector teams.

Improve the Use of Development Assistance Agencies

AusAID and Australia's representatives in the ADB and World Bank have an important role to play in bringing commercial opportunities associated with aid projects in growth triangles to the attention of Australian companies.


AusAID currently advertises opportunities for commercial activities in its Business Newsletter and through Austrade's International Projects Intelligence Network. Currently, it is strengthening its liaison efforts to facilitate greater private sector involvement in aid projects.

AusAID also responds to commercial initiatives and proposals for development activities generated by Australian companies. It does this through the Development Import Finance Facility (DIFF) and Private Sector Linkages Program (PSLP). Both programs could provide opportunities for Australian companies seeking to undertake projects in growth triangles.

Support State and Territory Initiatives

Australian state and territory public and private sectors will play an important role in the development of links with ASEAN growth triangles. State and territory governments already are actively pursuing links with specific states and provinces in growth triangles.

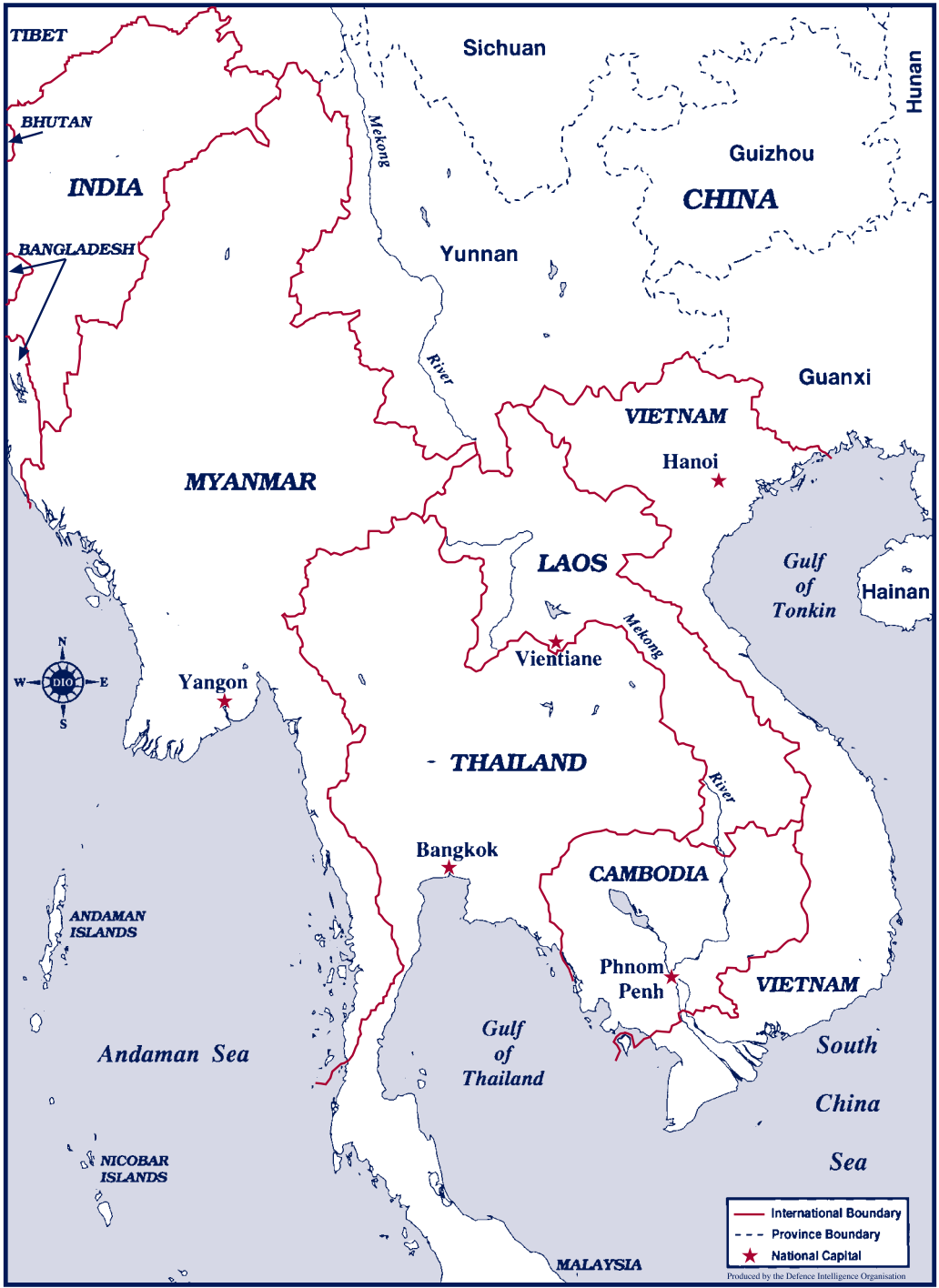
In 1990, Western Australia became the first state to establish a formal relationship with a province of Indonesia (East Java). Queensland followed in 1991 by establishing ties with Central Java. In 1992, the Northern Territory signed a MOU with the Indonesian Government promoting closer links with the eastern provinces. In October 1994, South Australia signed an agreement to piggy-back with the Northern Territory in developing ties with the BIMP-EAGA. Also in 1994, the NSW Government signed a MOU on cooperation with the Special Area of the Capital of Jakarta. Victoria has established official representation in Jakarta.



Encouraging closer state-provincial links between Australia and South East Asia could encourage state government agencies to become more outward-oriented and competitive. It is important, however, that at all levels of government, these initiatives have clear objectives and are coordinated effectively.

OUTLOOK

Potentially, each of the growth triangles examined as part of this study, the IMS-GT, the IMT-GT and the BIMP-EAGA, can offer Australia new commercial opportunities over the medium to long term. However, Australian companies will consider a range of factors and possible locations when examining opportunities in growth triangles and will compare opportunities with those available elsewhere in ASEAN and globally. Ultimately, business will go where it can make a profit.



Greater Mekong and Golden Quadrangle Growth Areas

Appendix 1

THE GREATER MEKONG AND GOLDEN QUADRANGLE GROWTH AREAS

These two proposals constitute the other major growth triangle initiatives in South East Asia.

THE GREATER MEKONG GROWTH AREA

The economic cooperation and growth area proposals in the Mekong River basin focus on southern China, Myanmar, Laos, Thailand, Cambodia and Vietnam. Together this area has 225 million people. Since the 1980s, economic liberalisation, international competition and geographical proximity have spurred stronger regional links and unofficial trade and trans-border investment have grown rapidly. In some areas, unofficial trade exceeds official trade.

All six countries broadly support subregional economic cooperation, despite their different timetables, expectations and objectives. Consequently, agreements on specific cooperation details may take fifteen to twenty years to formalise. The subregion has a large, trainable, cheap labour supply and a large, underdeveloped consumer market. The subregion could support agri-business, manufacturing and services but lacks the infrastructure needed for higher levels of economic activity.

Thailand

Thailand seeks to be the economic hub of the Mekong subregion. Its relative advantages are in marketing, finance, technology and tourism. Thailand is looking to neighbouring countries to overcome its domestic shortages of fuel oil for electricity (Myanmar, Yunnan and Laos); natural gas/oil (Myanmar and Vietnam); hydro electricity (Laos, Myanmar and Yunnan); and iron ore, copper, lead and other minerals (Yunnan and Laos). Thailand hopes to export its labour intensive equipment and industries as its comparative advantage in labour cost is eroded.

China (Yunnan province)

China, particularly Yunnan province, recognises the potential to expand exports of simple consumer products, machinery and equipment, and resources such as iron ore, marble, coal and phosphate to markets in Myanmar, Laos, Thailand, Cambodia and Vietnam. Exports to third countries through ports in Thailand, Myanmar and Vietnam would reduce high transport and taxation costs. Yunnan is eager to attract investment and technology from Thailand that would allow China to develop depressed areas in its interior and thereby reduce national economic income disparities.



Myanmar

Myanmar broadly supports the concept of accelerated economic links if they will help to revitalise the economy and facilitate national development.

Laos

Laos supports subregional economic cooperation if it reinforces the transition to a market oriented economy and attracts foreign trade and investment. Laos seeks to develop transportation, tourism, energy and mineral resources. Cooperation would also give land-locked Laos better port access.

Cambodia

Cambodia is generally supportive of subregional economic cooperation if it provides a mechanism to rehabilitate its war damaged economy.

Vietnam

Vietnam recognises the potential of subregional economic cooperation to facilitate economic development. It seeks investment funds to develop its human resources, transport and communications infrastructure, and energy sectors, and manufacturing industry.

THE ROLE OF THE ASIAN DEVELOPMENT BANK

Since the late 1980s, various governments and the private sector have proposed economic cooperation in the Mekong Basin. However, the major initiative for subregional economic cooperation has come from the Asian Development Bank. The ADB has been formally steering subregional cooperation among all six countries and has set up a consultative and institutional framework to foster co-ordination. The ADB has identified trade and investment, transportation, communications, tourism, energy, human resources development and environmental management as priority sectors for coordination.

SUBREGIONAL COOPERATION IN KEY SECTORS

Transport

Inadequate transport infrastructure impedes trade and cooperation. The five priority transport projects are:

- (1) Upgrading the Ho Chi Minh-Phnom Penh-Bangkok road connection
- (2) Developing a Thailand-Laos-Vietnam east-west corridor involving Routes 8, 9, 18 and/or 12 in Laos, including a second bridge over the Mekong and ports in Vietnam
- (3) Developing a road link between Chiang Rai and Laos and Kunming
- (4) Developing a road link between Chiang Rai and Kunming via Myanmar
- (5) Upgrading the Kunming-Lashio (Myanmar) road system.



Railway Proposals

The ADB recognises the high cost of railway projects and further progress depends on governmental investment. Railway construction appears to be a long term option because most of the subregion lacks railway infrastructure.

River Transport

The ADB is studying a river improvement project for the upstream Lancang-Mekong River and has funded studies for the Red River Navigation Improvement Project and an inland water transport project linking southern Laos and north eastern Cambodia, as well as navigation improvements for the Mekong Delta.

Air Transport

The ADB is considering airport and civil aviation options to facilitate transport, business and tourist links in the subregion.

Energy and Water Resource Management

Energy is a key sector for cooperation. With few exceptions, the subregion so far has based energy development on a self-sufficiency approach. The ADB considers that a shift to a more integrated approach, particularly in the electric power sub-sector through grid interconnection and in the gas sub-sector through cross-border gas trade, would benefit the subregion.

Priority hydro-electricity and electricity projects are:

- (1) Developing Xe Kong and Se San Basin hydro power in Cambodia, Laos and Vietnam, with transmission interconnection
- (2) Developing Nam Tha hydro power project in Laos, with transmission interconnection with Thailand
- (3) Interconnecting the transmission of Thailand with the Jinghong hydro power project in Yunnan province
- (4) Developing Nam Theun Basin hydro power in Laos, with transmission interconnection in Thailand and Vietnam
- (5) Developing Thanlwin (Salween) Basin hydro power in Myanmar and Thailand
- (6) Developing Theun-Hinboun (formerly Nam Theun 1-2) hydro power project in Laos, interconnecting with Thailand
- (7) Immediately connecting existing power systems into a unified grid
- (8) Developing long-term subregional generation and transmission systems

Oil and Gas

Thailand has sought access to the oil and gas reserves of Myanmar and Vietnam to supplement its domestic production from the Gulf of Thailand. Thailand wishes to enter agreements to purchase offshore natural gas and oil from Vietnam, but progress has not extended beyond MOUs. Thailand also is negotiating a possible Joint Development Zone with Cambodia over prospective oil and gas reserves in areas of the Gulf of Thailand in which territorial sovereignty is claimed by both countries.



Telecommunications

The subregion has inadequate communications infrastructure, particularly in Myanmar, Laos and Cambodia. Telecommunications requires joint action among countries in the subregion. The six countries agreed to a subregional telecommunications sector study to research:

- (1) existing telecommunications and assess the quality of these facilities
- (2) cross-border telecommunications requirements to 2020, under various economic growth predictions
- (3) telecommunications facilities required to link the markets, production centres and development opportunities in the subregion, packaged as discrete projects
- (4) the roles of the public and private sectors, involving privatisation and private sector participation in telecommunications investments in the subregion
- (5) criteria for selecting among telecommunications investments, including:
 - (a) cost;
 - (b) rate of return;
 - (c) financing options
- (6) other relevant factors.

Tourism

The tourism sector is likely to realise the first concrete benefits from subregional economic cooperation. Thailand has reached an agreement with Laos to assist in surveying tourist sites, training and exchanging staff, exchanging data and establishing a regular tourist office in each country. Thailand also has arranged to promote tourism development with China and Vietnam. Burma has signed a MOU for tourism cooperation with Laos and is seeking closer tourism links with other countries in the subregion. A Greater Mekong Tourism Working Group is to be formed.

Trade and Investment

Cross-border trade is considerable. Although much of this trade is unregulated and unofficial, there is a shared desire to regularise bilateral and subregional trade. Trade and investment remains constrained by the lack of inter-governmental agreements regarding trading regimes, investment rules and customs procedures, as well as from problems in transportation, energy and water management, human resource development and telecommunications. Greater trade and investment within the subregion will, to a large extent, result from subregional initiatives in other sectors. Tariff and non-tariff barriers must be addressed, including pricing policies, foreign exchange controls, procurement policies and the role of state enterprises and trading monopolies.



THE “ECONOMIC QUADRANGLE” PROPOSAL

Besides ADB initiatives, Thai and Yunnan officials have promoted the idea of an economic or golden quadrangle linking southern China, northern Laos, northern Myanmar and northern Thailand. Since the mid 1980s, provincial and Chamber of Commerce officials from Chiang Rai province in northern Thailand have attempted to forge closer economic links with adjoining areas of Myanmar, Laos and Yunnan. The Chiang Rai Chamber of Commerce was encouraged by the enthusiasm for closer economic links to propose a economic growth quadrangle, consisting of the four countries in the upper Mekong basin.

Since the beginning of 1993, the scheme to link the four countries at the subregional level has begun to assume a national profile in Thailand. Foreign Ministry officials from Thailand, Laos and Myanmar, as well as provincial leaders from Yunnan have discussed economic cooperation between the four countries. They agreed that the economic quadrangle proposal would develop transport infrastructure, tourism and international trade between the four countries. As a precondition for economic links it was decided to prioritise the development of land and water communication routes between the countries.

However, since November 1993, there has been inaction on the economic quadrangle proposal. The Thai Government has allowed subregional economic cooperation arrangements to fall under ADB auspices, predominantly because Thailand does not wish to fund infrastructure projects and is actively seeking ADB funding to construct these links. The institutional framework for subregional economic cooperation is likely to emanate from ADB arrangements. Some smaller countries appear more comfortable with developments organised by a respected independent arbiter such as the ADB, rather than by larger neighbouring countries which may dominate economically. In addition, some countries are hesitant about establishing more bureaucracy.

PROPOSED PROJECTS IN THE IMT-GT

The ADB has identified five key areas for development. These initiatives are all at the conceptual stage.

TRADE, INVESTMENT AND LABOUR MOBILITY

Mobilisation of Financial Resources

Establishment of a closed-end venture capital fund for new cross-border investments. The fund initially would be a modest size and capitalised by international development agencies and private investment groups.

Investment and Trade Infrastructure in Southern Thailand

This agri-industrial development in Southern Thailand will have three components: (i) development of an industrial estate at Hat Yai, (ii) formalisation of two industrial zones at Hat Yai and Songkhla, and (iii) a commercial free zone near Songkhla port.

Investment and Trade Infrastructure in Northern Malaysia

This project would develop specialised infrastructure for trade and industry. Components could include developing a free commercial zone at Penang/Butterworth, strengthening the Ceramic Industrial Park in Perak and designating a free commercial zone status to the Lumut Marine Terminal.

Development of Special Economic Zone

The zone would consist of two components: (i) a border zone on the Thai-Malaysia border, and (ii) a Joint Development Zone integrating northern Sumatra and northern states of Malaysia. Border industrial estates and free zones could be established at Padang Besar and Changlun-Bukit Kayu Hitam. In northern Sumatra, the zone will take the form of an international corridor incorporating Medan, Belawan, Lhokseumawe and Banda Aceh.

Establishment of a Trade Information and Documentation Centre

The privately operated centre would offer three types of services: product market information, trade promotion and product development support.

INDUSTRY AND ENERGY

Rationalisation of Industrial Estates

Medium-term development in industrial estates and export processing zones at Narathiwat and Pattani (vegetable and fruit processing), Satun (marine products and palm oil) and Yala (rubber and parawood processing) in Southern Thailand.

Power Plant

Development of a power plant in Satun province in Thailand using coal sourced from North Sumatra. Project to be developed in conjunction with the proposal to develop the deep sea port at Satun.

Modes of Cooperation in Energy

Six studies will be required to develop modes of cooperation in the energy sector and to achieve greater integration of power systems. The studies will be for: (i) extension of power grid from Indonesia (Sumatra) to Malaysia, (ii) mine-mouth power generation in Sumatra, (iii) transport of LNG from Indonesia (Sumatra) to Malaysia, (iv) optimal location of generation facilities, (v) further expansion of the Thai-Malaysian link, and (vi) establishment of a joint consortium of power generation companies.

AGRICULTURE AND FISHERIES

Fish Canning and Processing in Northern Sumatra

Establishment of fish canning and other processing (freezing, drying, fish meal production) facilities in Medan, Tanjung Balai and Sibolga as part of the growth triangle's joint marine fisheries development program.

Export-Oriented Horticulture in North Sumatra

This multifaceted program would include promoting joint ventures in canning, freezing and drying, primarily in North Sumatra. Thai production and contracting experience could be used to export horticultural products to Malaysian and Singaporean markets.

Fisheries Infrastructure in Sumatra

Upgrading of facilities for marine fisheries at the secondary locations of Sibolga, Meulaboh, Banda Aceh and Mahalaty in Northern Sumatra to support long-term development of local marine fisheries.

Fisheries Centre at Sabang

This major project would include marine service facilities, warehouses, ice plants, upgrading of basic physical public infrastructure, trading and market fisheries investment promotion.

Fruit and Vegetable Marketing Infrastructure in Southern Thailand

Establishment of physical facilities for marketing on or near the Thai-Malaysian border. The project would include cold storage, loading bays and cleaning and fuelling points.

Swine Export from North Sumatra

The Batak area of North Sumatra offers a suitable environment for the production of warm and frozen meat for Malaysian, Singaporean and other markets. Application of Thai expertise possible.

Parawood Processing in North Sumatra

Promotion of commercial investment in rubber wood processing plant for solid wood, particle board, moulded boards and plywood in North Sumatra. Technology and expertise in Thailand and Malaysia would be combined with Sumatran natural resources.

TRANSPORT AND COMMUNICATIONS

Rural Road Maintenance and Rehabilitation Programs

Maintenance and rehabilitation of rural roads in north and south Tapanuli, Dairi, Karo and Simalungan. Improvements in Medan, Pinyai, Tanjung, Morawa and Tebingtinggi to upgrade some roads to 10 ton axle load capacity and improve access to Belawan port and key coastal ports.

Relocation and Upgrading of Medan Airport

Construction of a new airport which will begin operations in 2008. Alternative locations have been identified; the selection process is underway; and the Government has requested private sector involvement.

Container Services at Belawan Port

Construction of container berths, expansion of container storage yard and installation of additional container cranes. A Bank Technical Assistance Grant will examine the container handling capacity and berth length.

Container Equipment for Lhokseumawe Port

Project will provide container port services for DI Aceh area, thereby offering shippers more efficient cargo handling and shipping.

Extension of Langkawi International Airport Runway

Airport runway needs to be extended by 600m to handle B-747 flights for European tourists.

Yala-Narathiwat Highway

Proposed new highway would be 53 km long and would connect Yala directly with Narathiwat, halving the current road distance of 120 km.



Satun-Kuala Perlis Highway

Construction of a 64 km highway which would be shorter than the current route and accessible to heavy traffic. The Thai portion of the road is expected to cost US\$77 million, while the Malaysian component will cost about US\$22 million.

Shipping Services and Coastal Ports

The project proposes to establish a shipping company as a joint venture among the three governments and private sectors. Vessels will need to be fast and shallow draft, capable of carrying passengers and perishable freight. Project will be preceded by detailed feasibility study which will examine demand for ports and shipping, coal transport and passenger ferry services between Sumatra and Malaysia.

Landing Strips for Tourism

Ecotourism sites require landing strips capable of handling light aircraft. Strips to be constructed at Kutacane, Lake Toba, and Weh Island. The existing air strips at Nias Island and Simoulue also need to be upgraded.

Thai-Malaysian Border Zone Roads

Proposed industrial estates at the border zone need to be connected at Padang Besar by all weather roads.

Padang Besar Container Terminal

Development of existing cross-border traffic by expanding container storage areas and acquiring container handling equipment, expanding railway facilities and upgrading access roads.

Double-Tracking of the Ipoh-Butterworth-Padang Besar-Hat Yai-Songkhla Railroad

Initial project involved laying a double track from Padang Besar to Penang, to be followed by a second railroad track from Hat Yai to Butterworth and eventually to Singapore through Ipoh. Laying of second track between Padang Besar and Butterworth is estimated to cost about US\$210 million. Laying a second track from Butterworth to Ipoh, joining the double track at Kuala Lumpur and then continuing to Singapore will cost between US\$800 million and US\$41.5 billion.

Malaysia-Thai Border Bridge at Ban Bhuketa

The project involves the construction of a bridge 250m long and 12m wide across the Kolok River at the second most important border crossing on the Malaysian-Thai border.



TOURISM

Langkawi Tourism Development Plan

This project is to develop a strategy to make Langkawi a major tourism centre and an international destination. The plan will provide for short and long term marketing strategies, including detailed activities and recommendations for future development of physical infrastructure, facilities and attractions. Plan will cost about US\$2 million.

Lake Toba Area Development Plan

This project is to develop a fully integrated plan which covers land use planning, environmental preservation, park planning, and training, in the prime tourist attraction of Northern Sumatra. In addition, an institutional framework for managing commercial and urban development and a permanent park agency responsible for conservation and management is required. Plan will cost about US\$2 million.

Talo Udang Bay Penal Colony Historical Site

This project would promote tourism, historical preservation and cultural exchange across the Malaysian-Thai border as part of the proposed Langkawi-Tarotao Special Environmental Zone.

Weh Island as Tourism and Free Trade Zone

The project would support and control the development of Weh Island into a seaside resort and possibly a transshipment point.

Road Travel Facilitation Program

Development of motels, homestay accommodation and other low-cost facilities near or adjacent to major highways to facilitate road-based tourism. A study is required to evaluate and formulate practical implementation procedures for immigration, car insurance, training in language skills etc. Study expected to cost US\$1.2 million.

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Source: ADB Review, June 1995.

Appendix 3

USEFUL CONTACTS

BRUNEI

BIMP-EAGA Secretariat
Ministry of Communications
Bandar Seri Begawan
Tel: 242 526

Brunei International Chamber of Commerce
PO Box 2246
Bandar Seri Begawan 1922
tel: 236 601


INDONESIA

CENTRAL COORDINATION - JAKARTA

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Investment Coordinating Board (BKPM)

PO Box 3186
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JAKARTA
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Indonesia-Australia Business Council

Secretariat Office
World Trade Centre
JI Jend Sudirman Kav 29-31
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Fax: 6221 521 1541

RIAU

Regional Development Planning Board (BAPPEDA)
JI Cut Nya'Dien
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Tel: 62761 36 031 / 36 032
Fax: 62761 36 035

Indonesian Chamber of Commerce and Industry (KADIN) - Regional Office

JI Ahmad Yani No 12 (Lt 3)
PEKANBARU
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Fax: 62761 35 378

BATAM

Batam Industrial Development Authority

Batam Centre
BATAM
Tel: 62778 46 2047 / 46 2048
Fax: 62778 46 2240 / 46 2456

Batam Industrial Park (BATAMINDO)

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JI Rasamala No 1
MUKA KUNING BATAM
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BINTAN

Riau Development Coordinating Office

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Fax: 62771 81832

Bintan Resort Management

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SINGAPORE
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WEST SUMATRA

Regional Development Planning Board (BAPPEDA)

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Indonesian Chamber of Commerce and Industry (KADIN) - Regional Office

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SPECIAL PROVINCE OF ACEH

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Appendix 4

ACRONYMS

A\$	Australian Dollars
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AFTA-CER	ASEAN Free Trade Area (AFTA) and the Australia New Zealand Closer Economic Relations Trade Agreement (CER)
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
AusAID	Australian Agency for International Development
BBIR	Bintan Beach International Resort
BIDA	Batam Industrial Development Authority
BIMP-EAGA	Brunei-Indonesia-Malaysia-Philippines - East ASEAN Growth Area
BKPM	National Investment Coordinating Board in Jakarta
CER	Australian New Zealand Closer Economic Relations Trade Agreement
DIEA	Department of Immigration and Ethnic Affairs (Australia)
DFAT	Department of Foreign Affairs and Trade (Australia)
DIFF	Development Import Finance Facility
dwt	Deadweight Ton
EDB	Economic Development Board (Singapore)
ETMs	Elaborately Transformed Manufactures
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GRDP	Gross Regional Domestic Product
HRD	Human Resource Development
IMF	International Monetary Fund
IMS-GT	Indonesia-Malaysia-Singapore Growth Triangle
IMT-GT	Indonesia-Malaysia-Thailand Growth Triangle
JSR-GT	Indonesia-Malaysia -Singapore Growth Triangle
MIDA	Malaysian Industrial Development Authority
NIEs	Newly Industrialising Economies (Hong Kong, South Korea and Taiwan)
p.a.	per annum



PSLP	Private Sector Linkages Program (AusAID)
SEDCO	Sabah Economic Development Corporation
SEZ	Special Economic Zone
WTO	World Trade Organisation

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- Brunei – Indonesia – Malaysia – Philippines – East ASEAN Growth Area

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