Southeast Asia Responds To the Global Collapse

by Mike Billington

The reality of the collapse of the U.S. economy, and the International Monetary Fund (IMF) system, is finally sinking in in Southeast Asia. While the region has taken steps before toward economic integration and joint financial defense, since the 1997-98 speculative assault which ravaged its economies, those measures were tempered by a lingering delusion that the United States would forever be the "importer of last resort" for all of Asia. There was a second, related delusion, that despite the crash of the "new economy" over the past two years, an American recovery was just around the corner.

However, exports from the ten members of the Association of Southeast Asian Nations (ASEAN) to the United States declined last year by 4.7%, while foreign direct investment in ASEAN collapsed in the first half of 2002 by over 70%. The delusions are disintegrating.

Mustapa Mohamed, the head of Malaysia's National Economic Action Council, and one of Malaysia's leading planners, told a seminar on July 31: "There is a need to reduce dependency on foreign direct investment—even if it plays an important role in the country's economy—by identifying new sources of growth and aggressively developing these new sectors. . . . The capital market will have to gear itself up for a greater role for domestic investment in the overall economy."

Economics Takes Priority Over Terrorism

Acknowledging the crisis is the first step to finding a solution. Less than two months ago, on June 11, the same Mustapa Mohamed had said confidently that "the U.S. economy and that of the rest of the world are beginning to show signs of consolidation post-Sept. 11," adding that this would be a "catalyst to expedite the growth of the Malaysian economy."

The Foreign Ministers of ASEAN met on July 29-30 in Brunei. Although most of the Western press coverage focused on agreements regarding terrorism, the first issue of concern was the economy. The host of the event, Brunei's Sultan Hassanal Bolkiah, in his keynote address, made reference to the stock market crash in the West, warning that "events outside our control" should not determine the region's fate. "For the hundreds of millions of people we represent," he said, "the most pressing item of business on our regional agenda is economic progress. It is the biggest challenge for our Ministers."

The ASEAN Ministers agreed upon a "Roadmap for the Integration of ASEAN." Beside strengthening the existing regional institutions, trade agreements, and investment plans, the Roadmap calls for concentration on the sub-regional growth plans, such as the Asian Railroad connecting Singapore with Kunming by rail; the Mekong Basin development project; the Trans-ASEAN Gas Pipeline Project, bringing gas from Indonesia's Natuna fields into Malaysia, Singapore, and Thailand; and other large-scale regional projects.

Other discussions for such a roadmap are taking place in less open fora. For instance, Olarn Chaipravat, the senior adviser to Thailand's Finance Ministry, on July 28 spelled out a "roadmap" for ASEAN+3, which links ASEAN with China, Japan, and South Korea.

Addressing the dollar collapse, Olarn said that the bilateral "currency swap" arrangements among the ASEAN+3 nations—designed to defend against speculative attacks on their currencies—will reach $65 billion over the next two years. Olarn proposed the following steps: "persuade Malaysia, China and Hong Kong, which currently have their currency regimes pegged to the U.S. dollar, to 'soften' their peg, to bring the overall grouping's currency regimes closer to each other; establish the Asian Currency Fund (a new name for the still-born Asian Monetary Fund); set up a regional surveillance and coordination body, which could be put under the auspices of the ASEAN secretariat or the Asian Development Bank. . . . Once all these are firmly in place, member countries may consider the introduction of a common currency while maintaining individual countries' sovereignty."

Time for AMF and New International System

There has been no new official discussion, however, of the urgent need for a new *international* financial system to replace the bankrupt IMF-centered banking structure. The numerous calls in the region for a "new international financial architecture" after the 1997-98 crisis, were silenced by Washington's refusal to even discuss the issue. Were the region's leaders to reassert their earlier demand for international action, at this time of global financial breakdown, their efforts at regional integration and development would take on a new urgency, and would contribute to the necessary international transformation as well.

In that light, there were serious discussions at the first ASEAN Central Bank Governors' Forum in Yogyakarta, Indonesia, on July 30, regarding efforts to break the stranglehold of the IMF over the regional institutions. Bank Indonesia Governor Sjahril Sabirin, speaking at the end of the Forum, said that the "currency swap" agreements among the ASEAN+3 nations needed to be relieved of their IMF connections. As they now stand, only 10% of the funds available under the swap agreements would be available immediately to a nation in crisis, while the remainder would be tied to their adherence to conditionalities imposed by the IMF.

Sjahril told the press: "We are trying [to negotiate] so that the swap agreement would no longer be tied with such conditions. And other countries seem to endorse our stance."