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Sub-regionalism in the ASEAN Countries The Case of Indonesia, Malaysia, and Thailand Growth Triangle (IMT-GT)[1]

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The Case of Indonesia, Malaysia, and Thailand Growth Triangle (IMT-GT)[2]

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The term sub-regionalism essentially is a derivative of regionalism and therefore requires an understanding of the meaning, emergence, process, variants, and future of the latter. Regionalism is defined at the general level here as a tendency towards closer relations, intensified co-operations, and integration among nations at the regional rather than global level.

Although regionalism is often, commonly understood as closer co-operation or integration among nations in close geographical proximity, (e.g., the advent of the European Union [EU]), it may also be extended to include regional co-operation in larger regions among nations not in geographical proximity but which are engaged by either the dynamics of trade and investment or by the jittery of losing on the political-economic opportunities should they are excluded from the grouping (e.g., the advent of the Asia Pacific Economic Co-operation [APEC] and the fact that India – not in the Asia-Pacific region – also wants to join it). This "not-in-proximity" regionalism may also be extended to include "extra-regional" initiatives by a country as well, for instance, Malaysia's South-South Co-operation initiative in the South-eastern African region (Zimbabwe, Mozambique, South Africa) and in the Western and Southern regions of Latin America (Peru, Chile, Argentina). To extend further, regionalism may also be viewed in terms of the tri-polar reorganisation of the global economy into the Western Hemisphere bloc (North and South Americas), European bloc (EU and Eastern Europe), and East Asian bloc, although only the EU has materialised.

Regionalism and Sub-regionalism in Global Context

Following the decline in theory and practice in the 1970s, regionalism both revived and changed dramatically in the 1980s and has gained strength in the 1990s (Mittelman 1996:189). The ascendancy of regionalism appears to occur concurrently with the intensification of globalisation. But what exactly is globalisation?

Globalisation is perhaps the most popular buzzword in use today the world over by people from all walks of life, although it carries different meanings to them. Although globalisation is a process whose arena is multidimensional – economy, polity, and culture – *economic* globalisation is the one that appears the most in many popular writings and in most people's minds. Among the reasons is that the end of Cold War has brought about a paradox: on the one hand, the world is said to be borderless, thus rendering nation-states unimportant or matter less (Ohmae 1989) while, on the other hand, in reality, national economic growth (read trade and investment competitions among nations) has become the primacy of a nation's developmental goal.

Economic globalisation is an abstraction of the pattern of economic development that has emerged in the latter half of the twentieth century in which technological advances – in a coalescence of or embodying process, product, distribution, and communication technologies – have accelerated the transformation and reconfiguration of the logic of production and markets which are no longer determined solely based upon *comparative* advantage but more increasingly upon *competitive* advantages.

The above tendency – which has been marked by the expansion of transnational production and financial networks as technological advances have facilitated the decomposition of production (Frobel et al. 1980) – has been commonly described today in a *comparative* advantage paradigm as globalisation in a borderless world (Ohmae 1989). This meaning of globalisation, ideologically as well as in practice, has also been

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driven by the increasing clout of neo-liberal economic policies involving liberalisation and deregulation of national economies. The end of Cold War has accelerated this trend towards a more integrated global economy by incorporating 'socialist' economies more fully within the ambit of global capitalism (Parsonage 1997:248). In this reorganisation of production on a global scale there are various complex variations in the ways that transnational and nationally based corporation undertake their activities (Gereffi 1992). Fundamentally, though, in all these arrangements the 'national economy' is generally considered to be of diminished conceptual and practical relevance (op cit. Ohmae 1995, Reich 1991, Harris 1986).

On the other hand, the same tendency (i.e., globalisation) has been described in a *competitive* advantage paradigm in a juxtaposition framework. Porter (1990:18-19) noted that "the globalisation of industries and the internationalisation of companies leaves us with a paradox. It is tempting to conclude that [by crude observation] the nation has lost its role ... [when] companies, at first glance, seem to have transcended countries. But competitive advantage is created and sustained through a highly localised process. Differences in national economic structures, values, cultures, institutions, and histories contribute profoundly to competitive success. The role of the home nation seems to be as strong as or stronger than ever ... [because] the home base is the nation in which the essential competitive advantages of the enterprise are created and sustained" and from where these advantages are extended to the global stage by "combin[ing] advantages created at ... home base with others that result from a presence in many nations..." (ibid: 53).

Indeed, globalisation tendency is paradoxical: it has been accompanied by the revival of regionalism. In one aspect this paradox is manifested by "a regional concentration of trade and investment due to changes in the organisation of production which favour proximity in the production process and the need to address variations in regional markets" (Parsonage 1997:248, op cit. UNCTAD 1991; Morales and Quandt 1992). Nation states seeking to enhance national competitiveness through collaboration with neighbouring states as has been manifested by North American Free Trade Agreement (NAFTA) and the European Union have reinforced these economic dynamics driving regionalism. In another aspect, regionalism is viewed as a defence mechanism against the onslaught by larger groupings. A good example is Malaysia's proposal for the establishment of the East Asian Economic Group (EAEG) (which was later watered down into an East Asian Economic Caucus [EAEC]).

The proliferation of formal agreements to facilitate sub-regional economic networks that combine complementary economic differentials, such as production costs, infrastructure, and expertise, between neighbouring economies have accompanied the revival of regionalism more recently. These sub-regional arrangements have been encapsulated in such geometric metaphors as growth triangles, circles, quadrangles, and polygons (Parsonage 1997:249).

This paper attempts to arouse a discourse on and even rethink sub-regionalism in the context of globalisation by focusing on one of the sub-regional arrangements, namely, the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT). However, parallel references are also made to other sub-regional arrangements to illustrate similarities and differences among them. In this paper, the generic terms "sub-regional growth areas" (SGAs) is used when we refer to all of the sub-regional arrangements.

A Discourse on Sub-regionalism

SGAs are not entirely unprecedented (Parsonage 1997:249), having existed for some time in Europe and along the USA-Mexico border (Sree and Siddique 1994:47; Sklair 1989). However, their contemporary expansion has been controversially interpreted.

In the view of neo-classical economists, the proliferation of SGAs reflects or is a consequence of the increasing influence and prevalence of market forces in organising production according to comparative advantage (Ohmae 1993 and Lee 1993). These economists saw the private enterprises as the main actor while the role of the state as secondary, limited to providing a supporting role to facilitate negotiations and implementation. SGAs are thus viewed as 'natural economic zones' delineated by economic complementary rather than formal national borders (Ohmae 1993:79).

This paper argues to the contrary: The state is the author of sub-regionalism with the hope that the private sector (the hoped for actor) will be the takers. It will be argued, instead, that SGAs are "unnatural economic zones" of competing nature rather than practically complementing each other in trade and investment, although they possess complementary economic differential such as production cost and complementing needs in terms of infrastructure and services.

With the IMT-GT as a case study, the discourse is extended to include a dichotomised question of whether a growth triangle (GT) is an agent or victim of globalisation or the dichotomy is simply non-existent or that the question should be approached in another framework other than a dichotomy. Further, this paper seeks to identify the logic that propels the advent of GTs: are they purely, naturally economic, domestically, locally, and externally political, or combinations of these and others. Finally, this paper seeks to answer whether sub-regionalism is complementing or conflicting with globalisation. This paper will end with a suggestion on the framework for analysing existing SGAs in the future or SGAs in the making. But the following section will sketch the contributing factors to the emergence of SGAs in Southeast Asia followed by a brief profile of the case study, IMT-GT.

Rationales for Sub-regional Economic Co-operation

The exploitation of economic complementarities among naturally or economically or historically or culturally adjoining (although administratively detached) international sub-regions or sub-regions geographically in proximity to one another is perhaps the most important rationale for sub-regional economic co-operation. This rationale may be better understood when we trace the factors for the formation of some of the sub-regional growth areas in Asia. Reza (1997:4-5) gives four of these factors as follows.

First, it may be the result of a “growth spillover” from centre to the peripheries. As some economies advance, their land and labour costs are pushed upward, it may be profitable for them to relocate their labour intensive industries to less developed area in neighbouring countries which have ample land and labour but lack in capital, technology and managerial skills (Mijares 1996). Thus, the less developed neighbouring sub-regions provide alternative production bases to the dynamic economies (ibid.). In this case, the search for lower production cost is considered more important than *trade* complementarities or internal market size. Examples of sub-regional “growth spillover” are Southern China growth triangle and Singapore-Johor-Riau growth triangle, where spillover occurred from first generation NIEs.

A second factor which explains the formation of sub-regional growth areas and make them look almost as a “natural” phenomenon is the *economic* complementarity amongst the participating members, originating in different stages of economic development and different factor endowments, as also differences in levels of technology and the quality and experience of personnel (Tang & Thant 1994). Tumen Delta development area is an example where the potential for integration of capital and technology of Japan and South Korea with natural resources of far east Russia and North Korea with that of the abundant labour and agricultural resources of north-eastern China. However, note that the importance of *economic* complementarity is not paramount for the formation of the sub-regional growth areas in the sense that there may be substantial FDI inflows from outside the sub-region, which may go into export-oriented production sectors, without paying much heed to what may be perceived as limited *trade* complementarities within the zones (Reza 1997:4).

Thirdly, sub-regional growth areas may be created for joint development of natural resources, infrastructure, and industries in cases where the resources are located contiguously on or around the international border. A good example is the Malaysia-Thailand Joint Development Area to explore and transport offshore natural gas to Songkhla, southern Thailand for redistribution to each country’s market. *Economic* and *trade* complementarities may still be there, but the more important factors are the indivisibility of resources and the need for economies of scale.

A final argument for sub-regional growth area may be traced to common geo-political-cultural interests due primarily to geographical proximity.

IMT-GT: Brief Profile

IMT-GT, formally formed in 1993, is one of the four GTs in Southeast Asia. With an area covering 272,000 sq. km, it consists nearly 25 million population in North Sumatra, the Special Territory of Acheh, Riau, and West Sumatra in Indonesia; northern states of Malaysia, namely, Perlis, Kedah, Penang and Perak; and five southern provinces in Thailand, namely, Songkhla, Yala, Pattani, Narathiwat and Satun.

During the past two decades, particularly prior to the current economic crisis (which began in mid-1997), the national economies of the participating countries had experienced robust growth rates. However, the rates and directions of growth in the sub-regions differ both from those of their respective countries at large and from one another. Despite growth, the economic structures of the three sub-regions vary markedly. In terms of total domestic production and international trade, northern Malaysia is far more industrialised compared to other sub-regional economies. Viewed from the same angle, Northern Sumatra and Southern Thailand are still largely agrarian economies, although a significant part of their merchandise exports consist of processed natural resources and manufactured goods (ADB 1995).

Rationales for the IMT-GT

The overall goal of the IMT-GT is to accelerate private sector-led economic growth and facilitate the economic development of the sub-regions by:

- exploiting underlying economic complementarities and comparative advantages;
- enhancing sub-regional competitiveness for investment and exports;
- lowering transportation and transaction costs arising from geographical proximity; and
- reducing production and distribution costs through greater economies of scale.

The Role of State

The IMT-GT was perceived to be an effective and efficient mode of spurring economic growth in the sub-regions of the countries through increased trade and investment flows into the sub-regions. Many writings on the GT concepts maintains that GT is a primarily private-sector initiative or private-sector led. However, in reality, it is true for all of the development growth areas, be they triangle or polygon, they are basically an inter-governmental initiative in the hope that the private sector will be takers to carry out projects. The governments play the role of a match-maker. It is then up to the private sector to undertake or even abort projects.

From Malaysian perspective, the state plays important roles in the development of the IMT-GT. Its roles are not limited to formulation of development concept, policy and programmes but also include identification and initiation of projects. In addition, the state also does monitoring and problem solving functions. Clearly the state provides an appropriate platform for the private sector to undertake various co-operative projects in the sub-region. As a result, at the end of 1997, 72 projects worth RM3.9 billion were identified involving 175 companies, mainly Malaysians and Indonesians. Most (40%) of these projects were in trade and investment sectors, followed by infrastructure (18%), agriculture (14%), and human resource development [HRD] (13%). The number of projects in tourism and services were relatively small. However, in terms of the proposed investment or project cost, infrastructure constituted 73.5%, followed by trade and investment (20%), and agriculture (5.5%). Contribution of tourism, HRD, and services sectors were very minimal (Table 1).

Table 1
Proposed Investment Under IMT-GT, 1993-1997

Sector	Project				Company		
	Number	(%)	(%)	Cost (RM mn.)	Indonesia	Malaysia	Thailand
Infrastructure	13	(18)	(73.50)	2,864	9	17	11
Trade & Investment	29	(40)	(20.00)	777	30	32	4
Agriculture	10	(14)	(5.50)	214	10	14	1
Tourism	6	(8)	(0.10)	6	5	5	1
HRD	9	(13)	(0.02)	1	11	11	2
Services	5	(7)	(0.90)	36	6 *	6	-
Total	72	(100)	(100.00)	3,898	71	85	19

Note: * Half of them are owned by Malaysia
Source: Calculated from Malaysia EPU (Unpublished data)

As shown in Table 1, the bulk of investment went to infrastructure, and trade and investment, reflecting the fact that these were the priority areas of co-operation in the IMT-GT.

The state has enjoyed good co-operation and developed networking with other institutions including international agency and private sector. Mode of contacts with these agencies was mainly through formal meeting as well as formal working groups (Table 2).

Table 2
State Co-operation and Networking with Other Institutions

Institutions	Type(s) of Contact
Other Governmental Agency	Formal Meeting Reporting Structure; Formal & Informal Working Groups; and Informal Social Contact
International Agency	Formal International Conventions
Private Sector Agency:	
Business Councils	Formal Working Groups
Federation of Manufacturers	Formal Working Groups and Meeting
Chamber of Commerce	Formal Working Groups and Meetings

Source: Authors' Survey, 1998.

Areas of co-operation range from development of the common border, such as the establishment of wholesale markets at the Malaysian-Thai border, investment in oil-palm plantations in Indonesia, the setting up of a Muslim livestock and food processing centre in the Pattani industrial zone (Thailand), the establishment of the telecommunications zone, the Satun-Perlis highway project, the development of Ro-Ro ferry services, the landbridge project linking Songkhla with Penang, the introduction of border passes and staff exchange programmes, efforts to harmonise professional practices and standards, and the establishment of interest-free banking services in the sub-region. Emphasis is also given on nurturing the small and medium scale enterprises (SMEs) to play a significant role in the economic development of the region (Malaysia, 1998).

Private sector response

Table 3 provides empirical data on the level of awareness and clarity of the IMT-GT concept on the part of the private investors in the IMT-GT. Overall, about 80% and 70% of the respondents were aware and clear of the concept, respectively. However, unlike Thai and Indonesian counterparts, a vast majority (72%) of Malaysian firms stated that they were still unclear about the concept. This finding is inconsistent with the significant number of Malaysian companies pledging to participate in the IMT-GT. At present almost 50% of the companies that have implemented or are planning to undertake IMT-GT projects were Malaysians. The figure indicates that despite having problems with the clarity of the concept, private sector response from Malaysia is much stronger than that of her counterparts.

Table 3
Awareness and Clarity of IMT-GT Concept

Aspect	Category	Country			Total
		Malaysia	Thailand	Indonesia	
Awareness	Yes No	59.5% 40.5%	93.2% 6.8%	73.8% 26%	78.9% 21.1%
Clarity	Yes No	28.0% 72.0%	88.2% 11.8%	67.7% 32.3%	71% 29%

Source: Fatimah Wati Ibrahim et al., 1998.

Encouraging response from local and private capitals may be explained by the expected benefits of participation in the programme as shown in Table 4. There are various forms of benefits, including business expansion and increasing market share.

Table 4
Benefits of Participation

Benefits	Country			Total
	Malaysia	Thailand	Indonesia	
Expand Business	28.5%	11%	14.3%	16.6%
Cheaper Resources	14.3%	2.7%	21.4%	10.8%
Widen Market	16.7%	35.6%	21.4%	26.7%
Business Information	16.7%	2.7%	23.8%	12.1%
Business Opportunity	4.8%	13.7%	7.1%	9.5%
Others	4.8%	1.4%	11.9%	5.1%

Source: Fatimah Wati Ibrahim et al, 1998

A case study on the IMT-GT (Fatimah Wati et al 1998) found that the expected benefits are market enlargement (26.7%), business expansion (16.6%), business information (12.1%), cheaper resources (10.8%), business opportunity (9.5%), and other benefits (5.1%). This result clearly indicates that generally business and market potential are major determinants of private investment in the sub-regions.

Problems and Solutions

Sub-regional co-operations in the IMT-GT suffer from various problems as shown in Table 5. Generally the main problems are variations in the wage rates and regulations. These factors differ between member states as the rules and regulations of individual nation states cover the areas of the IMT-GT. There is no special arrangement or incentive whether fiscal or monetary given to the sub-regions, though limited procedural arrangement may be undertaken.

Table 5
Problems of Co-operation

Problems	Country			Total
	Malaysia	Thailand	Indonesia	
Infrastructure	100%	33.3%	8.3%	18.8%
Resources	-	-	8.3%	6.2%
Language and Cultural	-	66.6%	25%	31.2%
Market Potential	-	33.3%	33.3%	31.2%
Wage Rate	-	-	58.3%	43.8%
Regulation	100%	-	50%	43.8%
Bureaucracy	100%	-	16.6%	18.8%
Others	-	-	8.3%	6.2%

Source: Fatimah Wati Ibrahim et al, 1998

The second major problem faced by the private sectors in the sub-regions are market potential, language and cultural, each scored 31.2%. Other problems include infrastructure, bureaucracy and resources.

The above stated problems if not treated properly may hinder further development of the sub-regions. Some of the pre-condition or contributing factors for speedy development of the IMT-GT are illustrated in Table 6.

Table 6
Needs and Necessities

Factors	Country			Total
	Malaysia	Thailand	Indonesia	
Improved Infrastructure	100%	100%	41.6%	56.2%
Political Stability	100%	-	83.3%	68.7%
Cultural & Educational	-	66.6%	100%	87.5%
Special Incentive	-	33.3%	41.6%	37.5%
Reduced Bureaucracy	100%	66.6%	16.6%	31.2%
Policy Reform	100%	33.3%	16.6%	25%
Others	-	-	16.6%	12.5%

Source: Fatimah Wati Ibrahim et al, 1998

Evidently, cultural and educational factors, political stability and improved infrastructure are important factors influencing private sector co-operations in the IMT-GT. Other significant factors include provision of special incentives, improvements in bureaucracy and policy reforms. This finding calls for state interventions as most of these obstacles are not the domain of the private sector. This is another evidence, on top of the fact that the IMT-GT is an intergovernmental initiative, that the sub-regional arrangement is not solely market driven as described by many neo-classical economists.

Impacts

Table 7 shows the impacts of the IMT-GT programmes on the overall economy of the sub-region as perceived by Malaysian government officials at federal as well as state levels within the Malaysian leg of the IMT-GT. While impact of infrastructure on technology development, international trade and investment promotion is marginal, agricultural impacts on HRD, technology development, international trade and investment promotion is contributory. Meanwhile, industrial, tourism and entrepreneurship programmes contributed major or significant impacts on the economy.

Table 7

Impact of IMT-GT Programs on the Overall Economy

Program	Impact on Human Resource Development	Impact on Technology Development	Impact on International Trade Development	Impact on Investment Promotion
1. Infrastructure	Contributory	Marginal	Marginal	Marginal
2. Agriculture	Contributory	Contributory	Contributory	Contributory
3. Industry	Major	Major	Major	Major
4. Tourism	Significant	No Impact	Major	Significant
5. Entrepreneurship	Major	Not applicable	Not applicable	Contributory

Note: Program 1 - 3 applicable to Penang only
Program 5 applicable to Perak only
Program 4 applicable to both Perak and Penang
No response from Kedah & Perlis
Source: Authors' Survey, 1998

In reality however, the public sector perception on the impacts of the IMT-GT does not match with the amount of investment actually spent on the proposed projects. As shown in Table 8, overall only 5% of the pledged funds have been invested in the sub-regions.

Table 8

Actual Investment Under IMT-GT, 1995

Sector	Investment (RM million)		
	Actual (%)	Planned (%)	% of Total
Infrastructure	162.0 (80.7)	2,864 (73.5)	5.6
Trade & Investment	26.0 (13.0)	777 (20.0)	3.3
Agriculture	6.0 (3.0)	214 (5.5)	2.8
Tourism	6.0 (3.0)	6 (0.1)	100.0
HRD	0.2 (0.1)	1 (0.02)	20.0
Services	0.4 (0.2)	36 (0.9)	1.1
Total	200.6 (100.0)	3,898 (100.0)	5.1

Source: Calculated from Malaysia, EPU (Unpublished data)

With the exception of tourism and HRD sectors, actual amount of investment in other sectors especially services, agriculture, and trade were very insignificant. Furthermore, evidence shows that 29.1% of the planned project were aborted. These projects constitute 15.3% of total investment and most of the projects and investment aborted were in trade and investment sectors (Table 9).

Table 9

Aborted Projects of IMT-GT, 1993-1997

Sector	No. of Project	(%)	Total Investment (RM million)	(%)
Infrastructure	Nil	(0.0)	Nil	(0.0)
Trade & Investment	16	(55.2)	591	(76.1)
Agriculture	3	(30.0)	4	(1.8)
Tourism	2	(33.3)	Not available	(-)
HRD	Nil	(0.0)	Nil	(0.0)
Services	Nil	(0.0)	Nil	(0.0)
Total	21	(29.1)	595	(15.3)

Source: Calculated from Malaysia EPU (Unpublished data)

Judging from the above evidence, one may conclude that the actual impacts of IMT-GT so far have been very much less than that of state expectation. Thus, while GT is part of the revival of regionalism, though at the sub-regional level involving proximate neighbours, its supposed contribution toward globalisation seems to be overstated.

Conclusion

Sub-regionalism is the tendency towards initiating and forming economic arrangement and promoting closer cooperation among sub-regions of neighboring states. These sub-regional arrangements, or at least such initiatives, proliferated in the 1990s, particularly in East Asia. They have been encapsulated in geometric forms of growth triangles, quadrangles, polygons, and hexagons.

This paper argues that regionalism has two forms, one that has grown quite naturally, organically as part and parcel of globalization (e.g., the flying geese formation in the East Asian decomposition of production) and the other emerges as a response to globalization. The former is basically private-sector driven while the latter is overtly inter-governmental initiative, i.e., planned. In the latter, the forms of responses may vary, either *defensive* regionalism or *proactive* regionalism, but the objectives are the same, namely, the protection and promotion of national interests through regionalism.

If regionalism is understood to be having either two forms, organic or planned, sub-regionalism is essentially a chapter of *planned* regionalism but it is also part of the responses to globalisation. The paradox of globalisation is that its benefits are far from spatially and socially globalised; the phenomenon tends to benefit the more competitive and/or powerful nodes or regions. The IMT-GT is a case in which its emergence may be seen as co-operative efforts in ensuring the sub-regions not to be excluded from the benefits of globalisation. Arguably, it is neither entirely a case of resisting nor a case of creating a defensive mechanism against the probable onslaught of globalisation.

The IMT-GT has been described by many as market-driven and private-led initiatives. This paper has demonstrated to the contrary; the IMT-GT is basically an intergovernmental-led initiative with the hope that the private sector will be the takers.

This paper also argues that the IMT-GT is an "unnatural economic zones" of competing nature rather than practically complementing each other in trade and investment, although they possess *complementary economic differentials* such as production cost and complementing needs in terms of infrastructure and services. In fact, these *complementary economic differentials* have been the main factors for the formation of the IMT-GT. So it follows that the state is the author of sub-regionalism with the hope that the private sector (the hoped for actor) will be the takers.

Our finding shows that, so far, the outcome of the IMT-GT initiative is not as rosy as expected. Part of the reasons is that any sub-regional initiative is constrained by national policies and priorities of each participating country. It follows that there is an urgent need for the participating governments to reexamine the existing framework. Some of the suggestions proposed earlier may be considered.

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