CHAPTER II

CONCEPTUAL ISSUES

The world has been witnessing for some time now a ubiquitous process of globalisation, a free trade regime symbolised by the World Trade Organisation (WTO), and an ever-deepening regionalism in Western Europe and North America. In such a global milieu, many countries feel it incumbent on their part to consolidate their own regional organisations, to take measures to remain competitive in the world market and to develop their regions at a faster pace. As such, one of the recent features in the political economy of East and Southeast Asia has been the emergence of localised, sub-regional level ventures and initiatives for economic co-operation, linking parts of three or more countries.

These sub-regional level co-operation arrangements are an innovative approach to synergise the diverse resource endowments and their economic complementarities for faster economic growth as well as to jointly develop the natural resources and infrastructure for the overall development of the participating countries and areas.

There appears to be no standard or universal definition of growth triangle. Scholars have attempted to define the concept in their own, individual way. Mohamed Ariff, for example, defines a growth triangle as a "production bloc within which labour, capital and technology move freely. The main purpose is to minimise costs and maximise returns, to render the triangle an attractive centre for investments and its products competitive internationally". A Singapore-based Myanmarese scholar is of the view that the "concept refers to the exploitation of complementarities among participating geographically contiguous countries to help them gain a greater competitive

edge in export promotion."² Some other scholars maintain that "in their most basic form, growth triangles exploit complementarities between geographically contiguous areas of different countries to gain a competitive edge in export promotion"³. Another good definition is that a "growth triangle... [is] a cross-border arrangement between three or more areas of different nation-states, bound by proximity, to promote direct investment and trade so as to take advantage of different factor endowments in each area."⁴

However, Chia Siow Yue gives a more substantive conceptual foundation, capturing the essence of the process of sub-regional co-operation in various parts of East and Southeast Asia and accommodating the ideas seen in many other definitions. She writes that sub-regional economic zone "encompasses geographically contiguous areas of different countries in an economic integration process involving flows of goods, investment, and people. The rationale is the economic complementarity of these contiguous areas, to be exploited for efficient development of a common natural resource and/or production of goods targeted mainly at the global market."⁵ Indeed, a growth triangle is not only an extended manufacturing and export platform, it also includes service sector like tourism and labour exports as well as exploitation of common natural resources of the territorially defined proximate areas of three or more countries.


Growth triangles are not necessarily triangular in shape; indeed it is a misnomer. These co-operation arrangements are indeed geometry of growth. They are often designated with geometric configuration with certain number of sides like growth triangle, growth quadrangle, economic hexagon, and growth/geometric polygon. These geometric configurations are also an alphabet soup, so to speak, as they are also known by their acronyms indicating the initial letter of the name of the constituting growth areas or of the participating countries like the IMS-GT (Indonesia-Malaysia-Singapore Growth Triangle). Sub-regionalism may also assume a name for itself, depending on in which part of a particular region co-operation is sought to be launched, such as the Northern Growth Triangle of ASEAN (IMT-GT meaning Indonesia-Malaysia-Thailand Growth Triangle).

The sub-regional growth area itself is variously called. Scalapino calls it "natural economic territories", Tang and Thant, and Marty call it "transnational economic zones", McGee and Macleod call it "extended metropolitan regions", the London Economist calls it "natural economic zones", Abonyi calls it "natural economic area" or "transborder economic neighbourhood" and Sopiee calls it "geo-economic development

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zones". However, Chia and Lee have given a more appropriate name to the new growth areas, calling them "sub-regional economic zones" (SREZ). The advantage of this name is that it may imply any geometric configuration or alphabetic acronym for the localised mode of co-operation involving three or more nation-states. However, whether due to the mystic spell of the three-sided figures or otherwise, all these sub-regional level co-operation arrangements have come to be known as "Growth Triangles", and indeed this appears to have been accepted as the ASEAN terminology. This author also succumbs to the trend of calling sub-regional growth areas as growth triangles.

How to situate growth triangle in the global economy? In other words, what are its relationships with regionalism, regionalisation and globalisation? What is its position in relation to the levels of economic integration and what are its differences with other economic zones like Export Processing Zones (EPZ), Special Economic Zones (SEZ), and cross-border activities like border trade?

Regionalism is based on the political concept of geographically proximate nation-states coming together with the objective of forging co-operation in jointly identified areas for their mutual benefits. The traditional criteria of regionalism are considered to be increased trade and investment, and industrial co-operation among member nations. Growth triangles are a localised version of regionalism, with less formalised arrangements and procedures and with limited objectives to achieve. Indeed a growth triangle may be termed as a controlled experiment in regional co-operation, representing a new approach to regional development strategy. The growth triangle is also a response to the 'borderless' global economy, as it is a means of enhancing competitiveness of the participating growth areas and promoting their exports in the global marketplace. In this sense, globalisation and sub-regionalism are not necessarily competing trends.


Two more economic trends are also related here, namely open regionalism and regionalisation. Open regionalism is outward looking regionalism, reflecting the willingness of the regional organisation to promote external trade and investment flows. The idea is that the regional grouping will not only reduce trade and investment barriers vis-à-vis the fellow member states but will also do so in respect of other countries, supporting in the process the cause of global liberalisation. APEC has adopted such a principle. Whether the open regionalism concept is a contradiction in terms or not, the pertinent point for the purpose of the present study is that this principle is applicable to growth triangle as far as foreign direct investment (FDI) in the growth area is concerned.

Regionalisation is unique to Singapore as it relates to her growth strategy, enunciated in 1993 by Senior Minister Lee Kuan Yew with the end in view that "Singapore companies and multinationals based in Singapore were encouraged to expand through direct investments in the new growth areas of the region. The focus of investments include China, Vietnam, India and ASEAN" "so that factor income will become a substantial component of [Singapore's] Gross National Product over time." Indeed, Singapore's regionalisation policy was instrumental in creating the ASEAN's first and so far the most successful growth triangle.

Just a few words about the forms and levels of economic co-operation will be in order, as these are parts of the broader concept of economic integration. There are six forms of economic co-operation/integration: (1) Preferential Trade Arrangement (PTA). In the case of PTA, member states agree to reduce tariffs for one another within the group on a certain number of traded commodities. (2) Free Trade Area. Under this regime, tariffs are abolished among member states but maintained vis-à-vis other countries. A good example may be the U.S.-Canada Free Trade Agreement. (3) Customs Union. Here all intra-group tariffs are abolished while a common external tariff is followed. Examples are the Andean Group and the Central American Common Market. (4) Common Market. This is a form of economic integration wherein the characteristics of a customs union are combined with the

abolition of restrictions on factor mobility, such as labour and capital. Example is the pre-Maastricht European Community.

(5) Economic Union. This is an integrated economic system where there is the unification of monetary, fiscal, and social policies. A supranational authority is established and member states are obligated to abide by its decisions. And (6) Economic and Political Union. This is a completely integrated regime. In addition to the economic union, this form also implies a degree of political integration. The European Union is gradually progressing towards this level of integration. 14

Growth triangles are a kind of a subset of Preferential Trade Arrangement, which is an emerging trend in sub-regional co-operation. A growth triangle, which may eventually lead to region-wide Free Trade Area, is therefore also a state of affairs as well as a process in the broad spectrum of economic integration. FTA is more formalised and complex than growth triangle.

As the name suggests, border trade involves trade among the participating countries along their borders only, while growth triangle is more than border trade as is clear from the above discussion. Border trade may be transacted between two countries, whereas growth triangles need three or more. Border trade is quite an old practice but sub-regional co-operation like growth triangle is only a recent mode of inter-state economic co-operation. In a growth triangle, the partners' interests, though not their objectives, are shared, while no such interest is involved in the case of border trade.

Growth triangles are different from Export Processing Zones (EPZ). EPZs are specially demarcated areas within a country but outside a nation's normal customs barriers to promote export manufacturing and foreign investment, where foreign firms enjoy favoured treatment in terms of fiscal incentives, importation of intermediate goods and infrastructural support. As most of the output of EPZs is exported, the host country benefits from foreign currency earnings and employment generation, and the investors stand to gain from low cost of production. Growth triangles operate with three or more countries and their operations are not limited to manufacturing, and may include such sectors as

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14. For details on integration see Toh Thian Ser, *op. cit.*
tourism and labour exports as well as the development of common natural resources and infrastructure.\textsuperscript{15} Some of the ASEAN countries, such as Malaysia and Indonesia, and Taiwan have set up EPZs. The Special Economic Zones (SEZ), established by the People's Republic of China in its southern coastal areas, are essentially EPZs.

\textsuperscript{15} Ming Tang and Myo Thant, 1994, \textit{op. cit.} p. 6.