# *Coopting Cooperation*[1]
## The Asian Development Bank and Sub-regional Economic Zones

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**Focus on the Global South**

In Asia, subregional economic zones (SREZs) have gained currency as a mode of international economic cooperation. SREZs represent an attempt by neighbor countries to initiate deeper economic cooperation at a subregional level, a mechanism that has proven expedient when integration of entire economies and regions proves limited and fraught with difficulties. Through SREZs governments of neighbor countries work together to make a particular transnational but contiguous area, also known as growth polygons[2], attractive platforms for enhanced economic activity. Jointly they design incentives – in the form of policies that are more liberal than national policies, the coordination of such policies, and the provision of essential infrastructure – to attract investments into the polygons. Particularly, ASEAN governments have embraced the SREZ concept as a way of promoting regional integration without having to change national trade policies.[3] SREZs can also serve as testing grounds for policies that imply political risk for possible national implementation.[4]

In Asia, there are close to a dozen growth polygons in existence, with more triangles being thought up. Following are some of the more popular ones:

(1) South China Triangle which connects Hong Kong, Taipei and Southern China.
(2) Tumen River Delta Triangle which integrates the capital and technology of Japan and South Korea with the natural resources of Northern China, Siberia in Russia and North Korea.
(3) Northern Growth Triangle (now called the Indonesia-Malaysia-Thailand or the IMT GT) involving Southern Thailand, northwestern Malaysia, northern Sumatra.
(4) Southern Growth Triangle, also known as SIJORI links Singapore with the Johor State of Malaysia, and Riau and West Sumatra of Indonesia.
(5) BIMP-EAGA Polygon which joins Brunei; Kalimantan and Sulawesi provinces of Indonesia; Sabah, Sarawak and Labuan in Malaysia; and Mindanao and Palawan in the Philippines.

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[1] This paper draws heavily from an earlier work, ***"'From Flying Geese' to 'Cog and Wheel': Some Issues on Sub-Regional Economic Zones"*** published in ASEAN Exchange.
[2] Because SREZs often involve three transnational areas, they have been more popularly referred to as growth triangles.
[3] Richard Pomfret, **ASEAN: Always at the Crossroads?**, March 1995.
[4] Min Tang and Myo Thant, 'Growth Triangles: Conceptual and Operational Issues', in Myo Thant, Min Tang and Hiroshi Kakazu, **Growth Triangles in Asia: A New Approach to Regional Economic Cooperation** (ADB, 1998)

(6) Golden Quadrilateral which groups Northern Thailand, Myanmar, Laos, and the Yunnan Province of China. This polygon has since evolved into the Greater Mekong Sub-Region, and now includes Vietnam and Cambodia.
(7) South Asia Growth Quadrangle (SAGQ) which involves Bangladesh, Bhutan, India and Nepal.
(8) Central Asian Republics (CARs) Regional Cooperation Program, grouping together former Soviet Central Asian republics of Kazakstan, Kyrgyz Republic, Uzbekistan, and (upon their membership in the ADB) Tajikistan and Turkmenistan, and Xinjiang PRC; and the
(9) South Pacific Regional Cooperation Program which groups the Pacific Islands DMCs.

The success of SREZs is said to be contingent upon three related factors[5]: a highly developed city (area) that has run out of land and labor, a surrounding area plentiful in both land and labor, and political will to reduce the visible and invisible barriers separating the city from the other areas. In SIJORI, for example, Singapore is the land- and labor-scarce city, and Johor and Riau the complements. To illustrate the importance of land and labor in the triangle, consider this: Tourism and real estate projects accounted for more than half of the over $500 million in foreign investments in Batam between 1980 and 1990, and nearly all of this originated from Singapore. Johor is a favored host location for labor-intensive manufacturing investments from Singapore, given its close proximity, land-bridge connection, infrastructure, and long established close historical, cultural and business ties.

SREZs satisfy real needs at the same time that they minimize occasions of potential tension. The different growth triangles have facilitated more open discussion and adjustment of economic policies, albeit on a limited scale. This is a necessary step in tackling difficult trans-border issues the resolution of which has proven difficult in the past.

## Enter the Asian Development Bank

In the 90s the dynamics of growth polygons changed considerably. Whereas before, a lead economy takes the challenge of selling the polygon idea, today multilateral development banks have come into the picture. The Asian Development Bank is the most prominent player in this respect. It has taken the lead in the masterplan for three SREZs: the GMS, the IMT GT and the BIMP-EAGA. It has also supported initial studies for the SAGQ, the CARs, and the Pacific Cooperation Program. The prominent role now being played by ADB in determining the direction SREZs take presents new issues that undermine the integrity of SREZs as a potential socially relevant development tool.

**First**, while there is agreement even within the ADB that "regional cooperation studies are relatively expensive and complex"[6], there is little, if at all, attempt to make

[5] Far Eastern Economic Review, **Asia Yearbook 1995.**
[6] Myo Thant, 'The Indonesia-Malaysia-Thailand Growth Triangle', in Myo Thant et al., ***op cit.***

them more inclusive. Development and cooperation are not the exclusive mandate of the ADB, or any multilateral institution for that matter. It is not something way above the heads of local peoples and communities, and local thinkers and activists – a fact that is conspicuously under-recognized in giant development institutions.

The participation of communities and non-government organizations in the drawing up of sub-regional plans is nil. No space is left for them to occupy in the supporting structures that were set up to implement, monitor and plan SREZ efforts. Issues raised by communities and NGOs are dealt with, case by case, using different yet still limited ADB policies on Cooperation with NGOs, Inspection Function, and Resettlement.

**Second**, the ADB's involvement has produced very expensive SREZ plans exhibiting glaring imbalance in sector focus. Masterplans ultimately make for more ambitious programs and huge financial requirements, way beyond the need and the reach of local populations. For the Greater Mekong Sub-Region, costs figure in the order of (more than) 200 billion dollars for energy development alone.[7] In the Indonesia-Malaysia-Thailand Growth Triangle, immediate projects and policies are laid out, and are expected to generate $20 billion in business opportunities for private investors.[8] Thirteen energy projects in Central Asia total $12 billion in potential investments. The same trend holds true for the other SREZs.

The seemingly integrated approach to development facilitation is proving to be little more than pretensions. Tackling the social sectors in the masterplans is nothing if not matched by equal emphasis in practice. The ADB sticks to its project finance, particularly infrastructure and intensive agriculture, mentality. For the GMS, SAGQ and the CARs focus is on energy development. For BIMP-EAGA and the Pacific, it is transportation.

The heavy slant toward infrastructure demonstrates how very limited the ADB's idea of sub-regional cooperation is. Certainly, infrastructure is the biggest need and the peskiest bottleneck in most sub-regional arrangements ADB supports. While it is true that at least for the three earlier masterplans (IMT-GT, GMS, and BIMP-EAGA) other sectors are given space, in practice most funding efforts (and almost all of cofinancing) go to infrastructure.

The continued emphasis on hardware projects can be explained by an underlying motivation known as 'project pushing'. Regional and sub-regional cooperation programs supported by the ADB depend on its cofinancing activities, done mostly with rich member governments. More than sixty percent of Bank cofinancing in the 1990s was taken up by energy projects. And since cofinancing is almost always tied money, the heavy concentration on infrastructure project indicates similar heavy subsidies to domestic industries of contributing countries. Note for example the substantial exposure of Nordic and Australian companies in ADB supported hydroelectric power generation

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[7] J. C. Malaluan, *op cit*

[8] **ADB News Release** No. 23/95, 21 March 1995 (from the Internet)

projects. Closer examination will reveal that their governments are big contributors to ADB cofinancing funds.

A graver concern yet is ADB's record of supporting infrastructure projects that performed poorly in terms of social sensitivity as exemplified by resettlement of affected communities under poor conditions (Phnom Pehn to Ho Chi Minh City Highway Project), sub-standard environmental impact assessment (Nam Leuk Hydropower Project), and unmitigated environmental impacts (Theun Hinboun Hydropower Project), all resulting in the varying degrees of displacement and impoverishment of affected communities. Moreover, even with a supposed strict policy against corruption, the ADB nevertheless continues to deal with private entities that were involved in controversial transactions.[9]

**Third**, what is being downplayed in all this is the huge debt expected to be created in the pursuit of SREZ projects. For instance, by ADB's projection, the realization of the Kyrgyz Republic's hydropower potential depends on the Government or any buyer country ability to shoulder a $3.5 billion debt. Obviously the governments of the participating countries do not have enough funds to support SREZ initiatives. The ADB is there to help these governments attract the funds, a big chunk of which is being provided through different loan financing schemes.

Another way by which the ADB mobilizes funds is through the Complementary Financing Scheme (CFS) where commercial banks provide the funds but the ADB is the lender of record. A borrower under the CFS has to pay the ADB a flat fee of $10,000-$30,000 (for public sector borrower) or ½-¾ percent of loan amount or $20,000 minimum (for private sector borrower) per loan, and an annual administration fee of $5,000-$10,000. On top of this, the borrower has to pay the participating commercial financial institutions a management fee, underwriting fee and agency fee. Not to mention the debt has to be repaid too.[10]

The basic issue is not whether or not governments or private companies should contract debts, but whether the amount of loan is considerably pushed up by less than judicious project design. Must SREZ projects always be big?

**Fourth**, it is quite clear that the ADB wants to steer policy direction in the region, getting tired perhaps of playing second fiddle to more established institutions like the World Bank and the International Monetary Fund. Nothing describes the ADB's move away from merely project financing better than its pronouncement that its "influence over policy and the reform process is more readily effective when a loan is being processed" because "when a loan is given, policy and institutional reform will be included as a substantive component of the loan."[11] The policy piloting role of the ADB is oriented

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[9] **NGO Letter to President Chino**, 3 August 1999.
[10] Sangme Coghlan, *"Financing Potential: Cofinancing and Guarantees"* in Asian Development Bank, **Challenges and Opportunities in Energy: Second Workshop on Economic Cooperation in Central Asia**, 1999.
[11] ADB, ***Strategy for the Pacific: Policies and Programs for Sustainable Growth***, 1996.

towards the attraction of foreign investments and trade via an enhanced (read: liberalized) policy environment. The ADB's philosophy therefore follows the same vein as that of the World Bank's or the IMF's. The major difference is that unlike the other two, the ADB has claimed a niche in pushing for this agenda even at the sub-national level. This is possible because SREZs do not necessarily involve whole countries and hence, national policies need not be re-oriented immediately, giving rise to fewer conflicts.

**Fifth**, even as the ADB is positioning itself for more prominent development policy role, it does not have enough resources to bankroll the different sub-regional initiatives. It had to redefine its role from direct fund provision to facilitation, much like acting as a sales manager for the sub-regional programs.

In line with its new role and the belief that private creditors will be most encouraged by lending to similar private entities, the ADB also enhanced its private sector operations with a new strategy to promote private sector development. This means making sure that "in its public sector projects, business opportunities will be generated for the private sector."[12] Heavy reliance is placed on cofinancing and CFS for the ADB's private sector operations. Non-traditional schemes like the BOOT (build-own-operate-transfer) are also vigorously promoted, with the ADB providing economic and political risk guarantees to BOOT investors.

The privatization ideology is being extensively pushed in the SREZs of transition economies in Asia (the GreaterMekong and the Central Asian Republics). This brings forth apprehensions over the absorptive capacity and efficacy of the private sector in the transitioning economies, assuming emphasis is placed on the development of the *domestic* private sector. Particularly for the CARs, the ADB encourages fast-track privatization even as there is admission that the culture of private enterprise in the sub-region is very weak if not virtually non-existent.[13]

## Other Concerns

Yet it was not just the ADB's involvement that gave rise to uncertainties in the SREZ model. Even at the onset, there were already glaring concerns surrounding SREZs.

The **first concern** has to do with the centrality of hub points that pull the SREZ together. This hub point represents either a source of funds and investments or a market for the SREZs' exports.

The SIJORI triangle is strongest because of Singapore. In Johor and Batam, more labor-intensive investments were located since 1990, but investors are mainly Singapore companies (including government linked companies), Hong Kong and Taiwan companies, and some multinationals with long-established operations in Singapore. So

[12] **ADB News Release** No. 30/00, 30 March 2000
[13] For details, see Asian Development Bank, ***A Private Sector Strategy for Central Asia***, March 1998.

dominant is the position of Singapore that the SIJORI triangle is touted to constitute "borrowed economic space" and may even become a "mega resort" for Singapore.[14]

The GMS attracts considerable interest because of Thailand as a focal point. For BIMP-EAGA, Brunei and Labuan are being developed as the transport and financial hubs. We could only expect India to be a key factor in the SAGQ. The natural tendency is that SREZs identify the most advanced areas as the hubs.

The centrality of a hub is problematic because the pace of progress in less developed areas of the SREZs is hinged almost undeservedly upon the hubs. Designs of projects/programs are greatly influenced by the hubs' priorities, and that any fluctuations in the hubs' economies and/or internal affairs affect the programs/projects even if they do not directly involve the hubs. Thailand and the GMS, especially in light of the Asian financial crisis, is a case in point. Thailand is expected to be the main energy export destination in the sub-region. Energy projections for the country have already been downscaled by more than ten percent, thereby affecting newly completed energy projects and those which are in the pipeline. The crisis has also effectively dimmed the chance of growing Thai investments focused on the Mekong, at least in the short- to medium-term.

A **second issue** is the centrality of natural resource exploitation. In SIJORI, it is land and tourism for Singapore. It is also water. Singapore has long been dependent on Johor for its water supply. In 1990-91, Indonesia and Singapore agreed to the joint development of water resources in Riau.[15] Thus said G. Naidu: "By providing a pretext for an agreement with Indonesia to obtain water from the Riau islands, the triangle has enabled Singapore to diversify its water sources."[16]

The GMS and the CARs Program are organized around the joint exploitation and development of the two sub-regions vast energy potentials. The still nascent SAGQ, whose members agreed to use a project-based 'building block' approach, is starting work on the possibilities of energy and power linkages.

The Pacific is targeted for intensive fisheries development. Both the GMS and the BIMP-EAGA gives priority to the export of timber and wood resources. Indeed foreign currency earnings may prove significant, but net earnings (correcting for the cost to the environment and the payments made for imported machinery and consultants, not to mention debt payments) may be way below gross receipts. Unfortunately, mainstream calculation of benefits fails to fully recognize the cost to the environment and human displacement.

The **third** and most complex issue revolves around the distributional conflicts unleashed by the SREZs. These conflicts are experienced between points in the SREZs, and internally by local populations in areas included in the SREZ.

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[14] G. Naidu, 'Johor-Singapore-Riau Growth Triangle: Progress and Prospects', in Myo Thant et al., ***op cit***.
[15] Richard Pomfret, ***op cit***
[16] G. Naidu, ***op cit***.

Uneven distribution of benefits is unavoidable even if there are no hubs that take primary roles. Distributional conflicts among points of SREZs are bound to happen and affect their position in and support to the SREZs. For instance, because of the perceived disparity in the gains within the SIJORI, support from members is uneven. It is strongest in Singapore, and weakest in Malaysia.

The triangle picture also misleads because there is no real link between Johor and Riau. There is little interaction between the two points, except for an Indonesian proposal to develop tourism facilities in Johor, and the proposal for Indonesian and Malaysian interests to jointly explore palm oil plantation possibilities in the Indonesian sub-region. Thus, while Singapore is able to overcome its problem of resource scarcity by exploiting its links with both Johor and Riau, Johor and Riau still compete with each other.

Moreover, the influence of Singapore exerts upward pressure on the cost of living in Johor and Riau. This is made possible by the migration of skilled labor to Singapore, pushing up wages, and the increase in Singaporean tourists on shopping trips to Johor and Riau. Naturally, it is the local populace who are most affected.

In the GMS, the entry of Thai and Chinese goods are big concerns for domestic farmers and producers. The increase in human traffic and the ease in transport facilitated by trans-border road projects also exert pressure on prostitution and related concerns like the spread of HIV/AIDS.

Internally, growth polygons might widen regional disparities within member territories and reduce national economic integration. They may also give rise to political conflict between different levels of governments. They can cause conflicts between national/federal and provincial/state governments over granting of concessions that might be at odds with national policies or inimical to the interests of other states/provinces. Concentration of development on areas included in growth polygons might also affect the level of public and private investments that go into these and other areas.

The distribution of costs and benefits internally between sub-regions of the polygon *viz.* the country represents a major challenge. For instance, employment gains and income increases may be limited to the sub-regions included in growth polygons even as said sub-regions receive inordinately large amounts of public investment from the national or federal government.

Rising costs of living and migration also lead to income disparities within the sub-regions. Slum communities develop or grow. Of course, there are also those who are directly affected by projects and programs implemented under the growth polygon concept. This includes people displaced and dislocated by energy, plantation or tourism projects.

Lastly, because sub-regional economic zones imply conferring of benefits and privileges in terms of policy and access to financing, there are valid concerns about the monopolization of economic opportunities by a few interests. For instance in Indonesia, the Salim and Bimantara business groups, both closely tied to the Suharto family, have vast interests in the SIJORI, particularly in the Batam duty free zone. The same concern is valid in all the other growth polygons.

**Conclusion**

Even in its simplest form, SREZs are already faced with many issues that need to be addressed. ADB's entry has not made the resolution of these issues easier. Instead it has made them even more complicated.

As a principle regional economic cooperation is a noteworthy exercise. It is when factors such as differential motivations *viz.* costs, balancing of stakeholders interests, scope and scale, and control come in that the whole picture becomes muddled.

Asia has contributed a lot in development thinking. Notwithstanding the late-90s crisis, its experience, including the impressive string of miracle economies, is an indictment of traditional western economic thinking. There is more to growth and development than just merely opening up.

The growth polygon concept is yet another product of Asian ingenuity, albeit also of its fierce competitive nature. But when big institutions like the ADB enters the picture, with big private investors in tow, one gets the uncomfortable feeling that a vehicle toward limited cooperation is being co-opted to blindly serve the paradigm of liberalization, privatization, and big business interest.