

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.