

# ASEAN's Sound Fundamentals Bode Well for Sustained Growth

**O**n November 7–8, in Jakarta, a conference cosponsored by Bank Indonesia and the IMF explored Macroeconomic Issues Facing ASEAN Countries. The conference took stock of the achievements of the member countries of the Association of South East Asian Nations (ASEAN) over the past decade, identified key determinants of their success, and looked at how this success could be sustained in today's fast-changing international economic environment.

Indonesian Finance Minister Mar'ie Muhammad opened the conference, which brought together finance ministers, central bank governors, and senior officials from across the region, as well as private sector representatives, academics, and representatives of international institutions. IMF Managing Director Michel Camdessus gave the keynote address on the issues and challenges facing the ASEAN countries. Other sessions featured addresses by Governor Singson of the Philippines, on current account sustainability, and Governor Djiwandono of Indonesia, on monetary management in an environment of rapid financial liberalization. A roundtable of speakers considered the changing role of the ASEAN countries in the global economy and prospects for sustaining growth over the medium term.

As background for the conference, IMF staff and academics prepared a number of papers, covering such issues as current account and fiscal sustainability, the determinants of ASEAN's high savings rate, exchange rate and monetary management, financial sector development and reform, growth and productivity trends, and trade and investment prospects for ASEAN. (Summaries of these papers are contained in a conference brochure, which is available on the IMF's web site at <http://www.imf.org>.)

Anoop Singh, Deputy Director of the IMF's Southeast Asia and Pacific Department, summed up some key findings of the two-day meeting; below are excerpts.

## Sustained Growth Envisaged

ASEAN's economic success remains alive and well, concluded participants in the Bank Indonesia-IMF conference. The central message was that the region is poised to extend its success



*At the Bank Indonesia-IMF conference (left to right): Jack Boorman, Director of the IMF's Policy Development and Review Department; Mar'ie Muhammad, Indonesia's Finance Minister; Soedradjad Djiwandono, Governor of Bank Indonesia; Michel Camdessus, Managing Director of the IMF; and Kunio Saito, Director of the IMF's Southeast Asia and Pacific Department.*

into the twenty-first century and that governments still have a major role in driving this process.

Conference participants broadly agreed on the elements underpinning the region's growth. These include the importance member countries attach to sound macroeconomic fundamentals, especially fiscal policies; the region's high rates of domestic saving and investment, which have enhanced the sustainability of external current account deficits; the avoidance of significant misalignments of exchange rates; the ability to adjust policies—in an appropriate and timely fashion—in response to changes in the economic environment; and an emphasis on infrastructure and anti-poverty spending.

Participants' confidence in the ability of the ASEAN countries to sustain rapid growth was rooted in the region's strong macroeconomic fundamentals; in ASEAN's tradition of, and commitment to, efficient allocation of investment; and in the widespread belief that the external environment will continue to be supportive.

*Macroeconomic Fundamentals.* Conference participants believed that the macroeconomic fundamentals underlying ASEAN's performance would remain strong over the medium term for a number of reasons:

- There is a domestic constituency for maintaining strong fundamentals. Owing to a popular aversion to high inflation throughout the region, policymakers are vigilant about maintaining macroeconomic stability.
- Policymakers remain focused on maintaining low inflation and reducing external current account deficits. While



**Soedradjad Djiwandono, Governor of Bank Indonesia, noted the importance of monetary management in an environment of financial liberalization.**

ASEAN countries' external current account deficits were not viewed as unsustainable, participants supported reducing them to minimize risks that might arise from external shocks or changes in investor sentiment.

- Policymakers have launched a number of initiatives to manage macroeconomic policy in a globalized economy. These include adapting monetary policy to the reality of financial liberalization, increasing domestic savings even further in the private and public sectors, and strengthening banking systems throughout the region.

- The strength of the underlying fundamentals—high levels of saving and investment—gives confidence to ASEAN countries that they will be able to adjust their macroeconomic policy as needed, or respond to future shocks, without having to cut consumption or growth too sharply.

**Efficiency.** Participants generally agreed that ASEAN countries' market-oriented policies have ensured efficient use of the region's high rates of investment. They also concluded that total factor productivity growth in many of the countries has been impressive. Assessing prospects, participants agreed that:

- The ASEAN countries must persevere with, and possibly accelerate, their structural reform efforts, particularly in liberalizing trade and increasing openness. More generally, the dynamism of the region—and the possible expansion of ASEAN to include the transition economies of Indochina—bodes well for future regional trade, investment, and growth.

- As the ASEAN countries approach levels of productivity comparable to more advanced industrial countries, growth is certain to slow. But for many countries, convergence is expected to take many years, and the region's rate of growth in the intervening period should remain relatively high.

**Supportive External Environment.** The consensus at the conference was that the global environment would remain favorable over the medium term. As the region's openness to inter-

national trade continues to increase and its economic size expands, ASEAN will play a growing role in the world economy.

### Role of Government

Adaptability has been a hallmark of the role played by governments in the ASEAN countries and is a part of the region's success. An important theme of the conference was that, although the size of the public sector can—and indeed should—be reduced, the state will retain a crucial role in maintaining an environment conducive to high-quality growth. Conference participants emphasized, in particular:

- Maintaining macroeconomic stability and moving forcefully on structural reforms are key government responsibilities. A critical element in both these tasks will be better regulation and development of the region's financial markets.

- Raising domestic saving—a vital part of future policy adjustment—involves decisions and tradeoffs, partly because it entails raising public saving. This, in turn, raises questions about infrastructure and other essential spending; this process has to be carefully balanced. It matters how public expenditure choices are made; the wrong choices can have longer run detrimental effects on sustainability, even if they appear to help in the short term.

- It is important to move toward broad consensus on objectives and the equitable sharing of the benefits of growth—in short, the entire process of sustaining growth. The necessary policy, institutional, and regulatory framework involves crucial judgments about the best way to convince markets and domestic populations of the government's ability to follow consistent policies over long periods. Transparency and openness are important elements of the broader basic ingredient: good governance. ■



**Indonesia's Finance Minister, Mar'ie Muhammad, delivered the conference's opening address.**