2005-01-01

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Recommended Citation
DOI: 10.58837/CHULA.ARV.18.1.4
Available at: https://digital.car.chula.ac.th/arv/vol18/iss1/4

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Development in the Indonesia-Malaysia-Singapore growth triangle

Toh Mun Heng

Abstract

In this article, I explore whether regional economic cooperation in the form of growth triangles, made popular during the late 1980s, can continue to be relevant in the face of more formal arrangements such as free trade agreements and other bilateral initiatives in recent years. The discussion is focussed on the Indonesia-Malaysia-Singapore growth triangle which is a pioneering arrangement in Southeast Asia. This project continues to be a successful mode of cooperation among the three countries and will remain a key and subtle framework for regional economic collaboration amidst the plethora of other initiatives. Growth triangles are one of several types of regional cooperation which align with global value chains. As long as the formation and implementation of growth triangles contribute to the creation of value, they can co-exist with more formal arrangements such as free trade agreements.

Introduction

The end of the Cold War has reduced political tensions among Asian countries and consequently brought about more globalization of production processes and increasing vertical integration. As competition cuts across national and sectoral boundaries and becomes increasingly global, firms everywhere are forced to shift from exports to international production. Countries such as Thailand, Malaysia, and Singapore have embarked on development strategies to attract foreign capital and expand exports as the means

to lift economic performance and improve social well being. In tandem with active domestic industrial policies, such countries have also made concerted efforts to promote regional cooperative arrangements with neighboring countries. Spatially delineated domestic areas designated as Export Processing Zones or Special Economic Zones, as well as cross-border economic zones called "growth triangles" or "economic corridor" can be useful mechanisms to stimulate and synergize local economies. Transnational economic zones have utilized the different endowments of the various countries in Southeast and East Asia by exploiting cooperative trade and development opportunities. Furthermore, transfer of technology and manufacturing processes between nations has allowed these countries to develop sustainable growth momentum in the global value chain amidst increasing international competition.

In this article, I explore whether regional economic cooperation in the form of growth triangle, made popular during the late 1980s, can continue to be relevant in the face of more formal arrangements such as free trade agreements (FTAs) and other bilateral "closer economic partnerships" (CEPs) concluded in recent years. The discussion is focussed on the Indonesia-Malaysia-Singapore growth triangle (IMS-GT) which is a pioneering arrangement in Southeast Asia. The first section of the article gives a brief overview of the IMS-GT, highlighting some salient features that make the IMS-GT a successful mode of cooperation. The following section considers whether the IMS-GT, or growth triangles in general, can continue to be relevant amidst the plethora of initiatives for FTAs and CEPs. In the third section, I put forth a thesis that growth triangles are part of a spectrum of regional cooperation efforts which engineer alignment with global value chains. As long as the development of growth triangles contributes to the creation of value, they can co-exist with more formal arrangements such as FTAs and CEPs.

**Historical overview of the IMS-GT**

Concerted actions to exploit complementarities among economic entities which have common national borders has given rise to growth triangles. These "subregional economic zones"
involve areas that may be different in terms of their respective capitals but happen to be geographically near to one another. The economic development of these areas is stimulated through promotion of trade and investment. The proximity of markets helps reduce costs. Foreign direct investments that are export-oriented should therefore find these growth areas attractive. Existing infrastructures will be improved to support the expansion of economic activities. Growth triangles have been a driving force for growth in Asian economies throughout the 1990s. Four growth triangles have been established since 1989, involving parts of eleven countries. As shown on the map (Figure 1), there are currently eight growth polygons in East and Southeast Asia.

Growth triangles typically group remote regions of nations involved in an effort to exploit complementary assets within the groupings. For example, the Tumen Delta triangle integrates the capital and technology of Japan and the Republic of Korea with the natural resources of Russia and North Korea (i.e., the People’s Democratic Republic of Korea), and the labor and agricultural resources of China. The governments of Brunei, East and West Kalimantan, and North Sulawesi of Indonesia; Sabah, Sarawak, and Labuan in Malaysia; and Mindanao and Palawan in the Philippines have given priority to expanding air and shipping routes within the East ASEAN Growth Area. Cambodia, Laos, Myanmar, Thailand, Vietnam, and China’s Yunnan Province have been discussing ways to develop the Mekong area since 1992. In fact, the Greater Mekong Subregion (GMS) Corridor has come into existence as a major regional development project strongly encouraged and supported by the Asian Development Bank (Thant et al., 1994). Thailand is expected to provide capital and experience in developing the GMS Corridor, though China will be another locomotive. The GMS will encompass a population of over 400 million people offering low wages, rents, and land costs.

The pioneering growth triangle in Southeast Asia was the IMS-GT, and its evolution is very much tied to the development of the Singapore economy (Toh and Low, 1993; Kakazu, 1997). Effective industrialisation of the Singapore economy started in 1965 when it became a sovereign state. Through a development strategy that
made intensive use of foreign capital and technology to supplement its dearth of entrepreneurship and its small domestic market, industrial production expanded rapidly to create employment opportunities and export penetration into international markets. Prudent macroeconomic and social policies helped to hone a workforce that is relatively skilled, and facilitated the exploitation of Singapore’s geographical advantage to become a major trading and transportation centre for the region and the world. The Singapore economy grew at an average of seven percent over the last forty years. From the 1970s to the 1980s, there was a shift in Singapore’s self-conception from that of a global city to that of a key regional business center. Since the early 1990s, Singapore has concentrated on becoming the technology hub for Southeast Asia, sending labor-intensive operations to low-cost neighboring countries like Malaysia and Indonesia in special mutual cooperative trade and development arrangements known as growth triangles or growth polygons. As a member of ASEAN, it will be in Singapore’s best interest to have the growth triangle concept endorsed and accepted by political leaders in ASEAN.

Figure 1: Growth Triangles in Southeast and East Asia

Source: Adapted from World Technology Evaluation Centre (http://www.wtec.org/)
Rising labor and land costs have made Singapore a less favorable place for manufacturing activities which are labor and space intensive. Instead of doing nothing and allowing the footloose characteristics of foreign MNCs residing in Singapore to materialize, Singapore’s economic planners have been actively interested in the MNCs’ plans to relocate their production bases in the face of rising domestic costs and cheaper alternatives abroad. They planned an orderly and deliberate relocation exercise for affected industries, by helping the high-cost, labor-intensive companies (foreign and local) to relocate to neighboring countries with relatively cheaper labor and land resources. They cherished the long established goodwill and business relations with foreign corporations. Rather than allow the production bases to move far away without any further linkage to Singapore, they hoped to persuade the MNCs to transfer into neighboring countries and continue to maintain gainful economic linkages with Singapore. Production bases in neighboring countries could still provide Singapore with a good source of income through use of Singapore’s service hub for transportation, finance and other headquarter services and facilities. Furthermore, this strategy would contribute to international goodwill by helping neighboring countries to climb the development ladder. Malaysia and Indonesia, Singapore’s two nearest neighbors, were the natural choice to start a triangular arrangement as there were already two existing bilateral arrangements, one linking Singapore with Riau and the other connecting Singapore with Johore. The concept of linking Singapore, Johore, and Riau, with their different comparative advantages and factor endowments, to form an economic zone was first articulated in December 1989 by Singapore’s then first deputy prime minister Goh Chok Tong. With the fall of the Berlin Wall, the intensification of European economic integration, and the seemingly righteous policy recommendations of the Washington Consensus, the growth triangle concept also gained increasing acceptance among ASEAN leaders.

During the Fourth ASEAN Summit in 1994, ASEAN leaders mandated the establishment and promotion of subregional economic arrangements among ASEAN members and between ASEAN members and non-ASEAN economies. Such arrangements
were expected to stimulate the economic dynamism of the ASEAN region, to sustain innovative spirit, and to complement overall ASEAN economic cooperation. Subsequently, the governments of Singapore, Malaysia, and Indonesia agreed to establish a subregional cooperative framework, originally known as the SIJORI Growth Triangle, for both political and economic reasons. When contiguous provinces joined the Growth Triangle, the arrangement became known as the Indonesia-Malaysia-Singapore Growth Triangle (IMS-GT). The investment generated in the IMS-GT has been very significant. In its first five years, it attracted $10 billion in private sector investments. Both Malaysia and Indonesia provided tax and financial incentives for firms to move to their jurisdictions to avoid rising costs in Singapore. Although Japan was the largest overall investor in Malaysia over the period 1981–90, Singapore was the largest investor in Johore state, followed by Taiwan. By 1991, Singapore, followed by the US and Japan, was the largest investor in Batam, with projects in real estate, tourism, metal processing, drilling equipment, and electronic component assembly (Toh and Low, 1993).

Figure 2: The triangle of complementarity in IMS-GT

<table>
<thead>
<tr>
<th>Singapore</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>- capital</td>
<td>- land</td>
</tr>
<tr>
<td>- skilled labour</td>
<td>- natural resources</td>
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<tr>
<td>- advanced technology</td>
<td>- semi-skilled labour</td>
</tr>
<tr>
<td>- access to world markets</td>
<td>- intermediate technology</td>
</tr>
<tr>
<td>- advanced physical infrastructure</td>
<td>- basic infrastructure</td>
</tr>
<tr>
<td>- advanced commercial infrastructure</td>
<td></td>
</tr>
</tbody>
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Indonesia
- unskilled labour
- basic technology
- natural resources
- undeveloped land

Growth Triangle

Figure 2: The triangle of complementarity in IMS-GT
Positive spillover to Batam

The development of the IMS-GT required political decisions to reduce barriers to investment and trade. To date, growth has taken place more on the Singapore-Riau and Singapore-Johore axes, rather than the Johore-Riau axis, because of conflicting complementarities. The Singapore-Johore leg is more informal than the Singapore-Riau segment as the latter is reinforced by bilateral agreements over Batam and Bintan. Figure 2 shows the complementarities in a schematic form. Singapore is in favor of greater interdependence as a means to improve security relations with its neighbors. In terms of an internal hierarchy, Singapore has focussed more on becoming a regional finance, business and high-technology center while unskilled and semi-skilled, labor intensive industries (textiles, chemicals, food processing) move to Batam and Johore respectively.

The establishment of the IMS-GT has spurred the development of Batam Island in Indonesia. Measuring 45 by 25 kilometers (about two-thirds the size of Singapore) with a population of about a million, Batam is located only 20 kms from Singapore and 25 kms from Johore in Malaysia. Batam is Indonesia’s equivalent of a Chinese Special Economic Zone, a place where the nation’s economic planners test new economic policies and ideas. Strategically located on the Indian and Pacific Oceans, Batam Island is also the second most popular international tourist destination in Indonesia. Because of its Free Trade Zone status since 1971, strategic location, low cost structure, skilled work force, and tax and other investment incentives, Batam Island has attracted over 700 foreign companies from thirty-four countries and well over S$ 3 billion in foreign investment. In addition, there are around 9,500 local companies spread over seventeen industrial estates and swathes of other land made available directly by Batam Industrial Development Authority for major establishments like shipyards. Sectors include, but are not limited to, technology, medical equipment and electronics, telecommunications, agribusiness, textiles, industrial assembly and fabrication, shipbuilding, oil and energy services. Prominent investors include

Source: Adapted from Debrah et al. (2000)
Indonesia-Malaysia-Singapore growth triangle

McDermott International, AT&T, PerkinElmer, Bechtel, Seagate Technology, Babcock & Wilcox, Holiday Inn, Matsushita, Kyocera, Hitachi, Sanyo, Nippon Steel, Hyundai, Siemens, Sony and Philips. Current investment priorities include waste water treatment, hospital, medical and educational facilities, and port harbor expansion. In parallel with these investments, nearby Bintan Island has experienced a transformative influx of capital from Singapore in industrial parks and high-end tourism facilities (Chang, 2001).

Investment by the Indonesian government in Batam to date is put at more than US$ 2 billion with private investment amounting to around US$ 7 billion. The bulk of the economic activities is in export-oriented manufacturing, contributing towards the 7.7 percent GDP growth recorded in 2003 and providing employment for more than 260,000 workers. In 2004, more than forty-seven new foreign companies with investments exceeding US$ 43 million set up production bases in Batam. Batam reportedly generates about 14 percent of Indonesia’s export income other than oil and gas. There are some forty shipyard industries and other heavy oil rig fabrication and steel fabrication plants. But most of the enterprises consist of electronics and computer related manufactures like audio and video equipment and printed circuit boards. Other products include leather goods, shoes, garments, toys, household products and health care products. Tourism is emerging as a major industry with around 1.3 million visitors a year, making Batam Indonesia’s second most popular destination after Bali. There are more than 6,000 hotel and resort rooms, many of international class. There are two marinas and six international standard golf courses.

The success of Batam in attracting investments is due to the willingness and determination of officials to adopt measures that cut through the red tape of other Indonesian regions with one-stop interfaces, speedy processing of development proposals, and cooperative handling of visa applications for key people. Potential investors have been wooed with a raft of investment allowances, tax concessions and exemptions going beyond the benefits of Batam’s duty free status. Laws have been relaxed to allow foreign ownership of houses and commercial property. Wholly foreign-owned enterprises can be established without any requirement for
Indonesian ownership. Secure land leases are available for up to eighty years and are extendable.

Another attraction for investing in Batam has recently been added: duty-free importation of Batam-made technology and medical equipment components into the US as "extensions" of Singapore's manufacturing base under the recently enacted US-Singapore FTA. While its proximity to a dynamic Singapore economy is an asset, signs of the future Batam are now emerging with the development of Batam Center, a new and modern administrative hub that ultimately will supplant old Nagoya as Batam's main business district. The modern architecture, obvious planning and permanent presence embodied in the major buildings of the new zone are in striking contrast to the urban environment of the early days.

The pioneering experience of the IMS-GT has led to the development of other growth areas. The Indonesia-Malaysia-Thailand Growth Triangle became the second major ASEAN effort at linking three complementary areas that belong to different participating countries in the northern part of ASEAN. This second triangle has extensive natural resources with vast economic potential for exploitation through subregional cooperation. As in the IMS-GT, multinational corporations may be interested in expanding their resource-based investments by opting to relocate their industries to the subregion, thereby increasing their competitiveness.

Do growth triangles complement FTAs and other trade arrangements?

Recent developments in the external environment have worked in tandem to raise awareness of the need to hasten the process of intra-ASEAN economic integration. These developments include (a) the stalling of multilateral trade talks; (b) the economic emergence of China and India and concomitant concerns about the loss of ASEAN's global competitiveness; and (c) the spate of new FTAs being negotiated in Asia (Rajan, 2004). These are impetus for the ASEAN capitals to review and re-assess their domestic and regional economic policies to cope with new international
development. Unilateral actions by individual countries to cope with international trends is of grave concern to ASEAN leaders as such actions run counter to the spirit and intent of the Common Effective Preferential Tariff (CEPT) agreement signed in 1992, which led to the establishment of the ASEAN Free Trade Area (AFTA). For example, the AFTA has been placed in jeopardy by deviation and delay over the fulfillment of commitments to trade liberalization – by Malaysia over motor vehicles and parts, by Indonesia over agricultural products, and by the Philippines over petrochemical products. Such actions also cast doubts on ASEAN’s support for the 1994 Bogor Declaration, signed by APEC leaders at a summit meeting in Indonesia, to push for a free trade area in the Asia Pacific by 2020.

While the overall economic impact of the new wave of FTAs remains unclear and somewhat controversial, there are signs of a return to growth triangles as a mode of promoting trade liberalization (Low, 2003). Over the past thirty or so years, preferential trading arrangements have not played a significant role in the integration of ASEAN economies. Intra-ASEAN trade has accounted for only about one-fifth of ASEAN’s total merchandise trade, and this share has remained stagnant over the last decade (and much of the intra-ASEAN trade is through Singapore). The share is far lower than in other regional economic alliances such as the European Union (65 percent) or the North American Free Trade Area (50 percent). Indeed, the fastest trade growth within the region since 1979 has been with China, and this has occurred in the absence of formal trade-liberalization agreements. Such trends toward spontaneous regional integration result from the progressive outward orientation of individual economies’ trade and investment policies and from the unilateral liberalization of goods and capital markets (Dobson, 1997).

In recognition of these concerns, at the Bali summit in October 2003, the ten ASEAN leaders agreed to the goal of creating an ASEAN Economic Community by 2020, with the primary objective of deepening and accelerating intra-regional economic integration by liberalizing trade, investment and skilled labor flows, and addressing behind-the-border barriers, thus creating a single production base and single market. According to a McKinsey report
on the competitiveness of ASEAN, commissioned by the ASEAN Secretariat, deeper integration could shave almost one-fifth off total costs of production in ASEAN. The High-Level Task Force on economic integration established by the ASEAN Economic Ministers suggested specific initiatives to advance the process of regional economic integration. These include: (a) hastening of customs clearance and simplifying custom procedures; (b) eliminating tariff and non-tariff barriers to trade; (c) accelerating the implementation of the Mutual Recognition Arrangements for key sectors; (d) harmonizing standards and technical regulations; (e) creating a more effective ASEAN Dispute Settlement Mechanism; and (f) fast tracking of liberalization of eleven priority sectors.\(^1\)

The High-Level Task Force lays out an impressive agenda of action but does not elaborate on the mechanisms for implementation. Formation of growth triangles could be one of the mechanisms.\(^2\) Growth triangles are a form of regional cooperation which provide a competitive model to attract investment and technology, and could also serve as a building block towards FTAs. Growth triangles have a less rigid and formal cooperation structure than FTAs, and thus may be more innovative and flexible in response to the ever-changing needs of investors. Growth triangles have been promoted by regional leaders keen on expanding “embedded exportism,” and by global enterprises who hope such triangles will have a “facilitating effect” upon the “open regionalism” championed in the Bogor Declaration (Bergsten, 1995; Sum, 2002).

Can growth triangles become building blocks towards FTAs? Huff (1995: 364–70) argued that the growth triangle strategy provide supports for ASEAN’s AFTA and APEC’s free trade plans. Rodan (2001) gave a similar opinion in his review of Singapore’s economic structuring strategies. The rise of the mega-economies of China and India has somewhat derailed the development path of large economies like Indonesia in ASEAN, forcing them to de-industrialize and renew their reliance on resource industries. Singapore’s foreign economic policy is also influenced by concerns about emerging regional trade blocs, a more assertive local capitalist class concentrated in the financial service sector, and the state’s increasing regional economic role. Singapore sees regions as
concentric and overlapping circles of linkage. This image contains an important ambiguity: concentric circles, unlike pyramids, do not constitute an economic hierarchy. Their economic health and destiny is very much dependent on the growth and progress of countries with disparate level of development. Economic leveling up of the regional economies is viewed positively as a contribution to Singapore’s economic future, and economic integration is an avenue to that goal. Other ASEAN members look to regional economic integration to overcome lack of capital formation and unemployment, and to foster a successful path to modernism.

ASEAN has doubled its membership from five in 1967 to the current ten. With a combined population of more than 600 million, ASEAN can be a voice of considerable influence in international forums. Concurrence in views among all members of a large organization is often difficult. Nonetheless, ASEAN has experimented with various 10-minus-x initiatives. In other words, some ASEAN projects need not involve every member. For instance, new members of ASEAN are allowed different time durations to complete the liberalization program under AFTA; and there is no restriction on the negotiation of an FTA between an ASEAN member and non-ASEAN members despite the existence of AFTA. While there are concerns about the complication arising from rules of origin in many overlapping FTAs, members are willing to learn how the associated encumbrances can be overcome. Weatherbee (1995) argues that a larger number of participants increases the possibility of non-cooperation. Extensive perceived asymmetries between states will affect the decision of smaller, less developed members. Security considerations will usually outweigh economic cooperation. Cross-border economic zones like growth triangles thrive on earlier cooperation. They will spawn future Special Economic Zones and provide a transactional structure of subregional multilateralism within a larger existing regional cooperation institution. ASEAN’s experience with growth triangles should be harnessed to push for deeper integration.

Amidst the fervor of establishing FTAs with many trading partners, Singapore has included quite an “extraordinary” clause in the US-Singapore FTA which came into effect in January 2004. The Integrated Outsourcing Initiative recognizes the nature of
global production chains where outsourcing has become a common practice. This provision means that some 266 types of IT and medical related products produced in offshore production bases such as Batam can be treated as originating from Singapore and hence eligible for tariff-free importation into the US. This makes products manufactured in Batam more competitive and undoubtedly gives an added value to the IMS-GT. FTAs have helped to re-focus investor attention on Singapore and the region which is in danger of dropping out of the radar screen with keen competition from China and India vying for foreign investments.

**Growth triangles and global value chains**

Growth triangles are conventionally viewed as exercises in spatial economic organization to “re-territorialize” contiguous space to achieve economies based on differences in resource, cultural and technological endowments (van Grunsven, 1995; Sparke et al., 2004). From a theoretical perspective, growth triangles can be rationalized through their role in global value chains. A value chain comprises the full range of activities that are required to bring a product from its conception to its end use and beyond. These activities include design, production, marketing, distribution and support to the final consumer.

Value chains are spread across multiple firms and geographic space, hence the term “global value chain.” But there are advantages when stages of production can be divided among multiple firms that reside in nearby geographical location. While many firms have had international operations and trading relationships for decades and a few for more than a century, in recent years we have seen the formation of many more global scale economic systems which are tightly integrated and often managed on a day-to-day basis. Today, the process of economic development cannot be isolated from these global systems, needless to mention subregional system. This means that firms and workers in widely separated locations affect one another more than they have in the past. Some of these effects are quite straightforward, as when a firm from one country establishes a new factory or engineering center in another country. Some are more complex, as when a firm in one country contracts with a firm
in another country to coordinate production in plants owned by yet
another firm in a third country, and so on.

Regions are increasingly tied into global value chains that are
characterized by forms of “private global governance” beyond pure
market coordination, and increasingly faced with global standards
(technical, social, ecological, etc.) which are defined and often
monitored by global policy networks (Messner, 2004).

The literature on cross-border economic activity emphasizes
that firms have two options: market or hierarchy. Firms either
invest offshore directly and enjoy the benefits of an enlarged
market, or buy goods and services from foreign firms to maintain
and extend their competitive advantage. A smaller body of literature
has noted the prevalence of network forms of organization where
there is some form of “explicit coordination” beyond simple market
transactions but short of vertical integration. While this is a useful
insight, a broad review of the literature clearly shows differences in
such “network” forms of cross-border organization.3 The global
value chain framework, propounded by researchers of the
University of Sussex, categorizes these variations, provides
explanations for them, and shows how changes in one variable can
change value chain governance patterns in predictable ways. For
example, the advent of a new technology can render an established
value chain obsolete and perhaps result in captive networks and
even vertical integration becoming more prevalent.

The point here is that regions must be able to plug into global
value chains. The IMS-GT will continue to be viable and play a
locomotive role for the rest of the economy as long as it can remain
an important and useful component of global value chains.
Economic actors, firms, workers and policy makers need to
understand how value chains function, and will benefit from
thinking about their competencies relative to other actors in the
chains they participate in or hope to participate in. What is the
division of labor in the chain, how might this be changing, and
why? Where are the various functions within value chains located
geographically? Are there nodes of excellence to be found in
particular places? What are the prospects for upgrading one’s
position within value chains? Are there competencies to be
acquired, codification schemes to learn, or kinds of relationships to

Indonesia-Malaysia-Singapore growth triangle

56
develop or steer away from? Growth triangles administered by officials well versed in value chain analysis will be in a good position to bring success to regional economic integration.

Growth triangles are a means of managing economic interdependence. They are part of a changing regional and global division of labor where industrial restructuring is being driven by political, technological and economic factors. MNCs may be pursuing a globalization or global localization (glocalization) strategy. Globalization involves a worldwide intra-firm division of labor where vocational strategies are based on scale economies and comparative advantage, production is geared to world markets and standardized tastes, and research is spread throughout the corporation. Global localization is based on a geographically concentrated inter-firm division of labor with integrated supply, distribution, and production chains in major regions. Production is geared towards local/regional markets and tailored to suit differences, while basic research is concentrated at home and applied research is decentralized.4

Both strategies involve global value chains which fall into two types. “Producer-driven value chains” involve transnational subsidiaries linked to a core manufacturer, which then distributes its mass production to distributors and retailers.5 Such chains are found in capital and technology intensive sectors such as cars, computers, aircraft, and heavy machinery. Transnational subcontracting and alliances are common. In contrast, “buyer-driven value chains” involve decentralized, flexible production networks where branded companies and retailers have both primary and secondary ties to trading firms, overseas factories, and trading companies. Such chains are found in production of labor-intensive consumer goods such as toys, footwear, garments, and consumer electronics. Profits are derived from design, marketing, and retail service, rather than economies of scale or advanced technology.

Growth triangles such as the IMS-GT can help to intensify export-oriented industrialization in ASEAN countries with indigenous firms and subsidiaries developing export niches in textiles, consumer goods, electronics, and transport equipment initially, and subsequently moving into semiconductors and integrated circuits.
The IMS-GT is currently part of a buyer-driven value chain involving exports of primary commodities, export processing or assembly, component subcontracting, original equipment manufacturing, and original brand name manufacturing. Original equipment manufacturing requires producers to make finished products to be sold under another brand name. This requires design interpretation, quality control, and on-time delivery by the producer and supporting firms, which learn to develop backward linkages. With more than 6000 multinational companies located in one of its partners, Singapore, the IMS-GT is in an advantageous position to become securely plugged into global value chains.

Conclusion

In this article, I have explored whether growth triangles as a mode of regional economic cooperation can continue to be relevant amidst growing activities in the formation of FTAs. The IMS-GT will be a role model in ASEAN. Its vibrancy and continued growth will have positive spillover effects to all the participating countries. Looking at both the past records and the prospective international trends of international production, the growth triangle is expected to co-exist with FTAs. In fact, I argue that growth triangles will play a significant role in regional economic development as conduits for both local and foreign corporations to be linked into global value chains. It is imperative that economic planners in developing economies recognize the importance in value chain analysis to shape policies that will deepen integration and bring larger economic benefits.

Notes

1 These sectors are automotive, wood-based products, rubber-based products, textile and apparel, agro-based products, fisheries, electronics, air travel, tourism, information and communication technologies, and health care.

2 Subregional arrangements are gaining acceptance within ASEAN. A case in point is the establishment of the Singapore-Thailand Enhanced Economic Relationship targeted as a high level forum to intensify bilateral economic cooperation across various sectors (agriculture and food, life science, automotive parts and components, and financial services).
The forms of network and value chain governance, according to the University of Sussex Global Value Chain Initiatives, can be categorized into (a) pure market, (b) modular value chain, (c) relational value chain; (d) captive value chain, and (e) hierarchical value chain. For more discussion, see http://www.globalvaluechains.org.

A more detailed discussion can be found in Oman (1994) and Ruigrok and van Tulder (1995).

Similar to value chains, commodity chains and their link to the global capitalistic system are discussed extensively by Gary Gereffi (1994 and 1995).

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Indonesia-Malaysia-Singapore growth triangle


