

# **The Economic and Political Growth Pattern of Asia-Pacific**

Institute of Southeast Asian Studies  
SINGAPORE

Pacific Forum  
HONOLULU

# THE ECONOMIC AND POLITICAL GROWTH PATTERN OF ASIA-PACIFIC

*Papers and Proceedings of a Private Conference  
organized by the Pacific Forum, Honolulu, and  
the Institute of Southeast Asian Studies, Singapore*

Edited by: Lloyd R. Vasey  
George J. Viksnins

Institute of Southeast Asian Studies  
in co-operation with Pacific Forum

Published in 1977 by

Institute of Southeast Asian Studies  
Cluny Road  
Singapore 10

Pacific Forum  
190 South King Street  
Honolulu, Hawaii 96813

© Institute of Southeast Asian Studies

Pacific Forum

---

Printed by Eurasia Press



## Institute of Southeast Asian Studies

*The Institute of Southeast Asian Studies was established as an autonomous organization in May 1968. It is a regional research centre for scholars and other specialists concerned with modern Southeast Asia. The Institute's research interest is focused on the many-faceted problems of development and modernization, and political and social change in Southeast Asia.*

*The Institute is governed by a twenty-four member Board of Trustees on which are represented the University of Singapore and Nanyang University, appointees from the government, as well as representatives from a broad range of professional and civic organizations and groups. A ten-man Executive Committee oversees day-to-day operations; it is ex-officio chaired by the Director, the Institute's chief academic and administrative officer.*

*The opinions expressed in this publication are the responsibility of the authors and not that of the Institute.*

## Pacific Forum

*The Pacific Forum was established early in 1975 to provide an informal international venue for the exchange of views, proposals and ideas on resolving the pressing policy issues and problems related to economic development, resources and stability in the Pacific region.*

*It is a private nonprofit international organization dedicated to the candid and objective exchange of views and ideas on resolving the major international policy problems and issues related to economic development, resources and stability in the Pacific region.*

*It is guided by an international Policy Council of distinguished persons from a wide spectrum of responsible positions of leadership.*

*In co-ordination with other organizations and institutions in the Pacific, the Pacific Forum conducts conferences, seminars and workshops. Occasional papers and reports are published to stimulate the exchange of different view-points and to provide objective analysis of international issues.*

*Affiliated with Pepperdine University and incorporated in the State of Hawaii, the Pacific Forum is located in Honolulu.*

## PREFACE

The past year had witnessed dramatic developments in the international political and economic scene of the Asia-Pacific region. The full implications of these momentous changes for the future of the area were still unclear and had yet to be fully assessed. With this in mind, both the Pacific Forum and the Institute of Southeast Asian Studies felt that the time was now ripe for a small expert group of Asian and non-Asian industrialists, bankers, governmental policy-makers and informed academics to come together and informally exchange views on the changing international scene, assess the probable impact of these changes on the future economic progress, development and stability of the area, and recommend new directions for international cooperation. A specific focus of the meeting was the role of foreign investment in the new international environment of Southeast Asia.

The conference on "The Economic and Political Growth Pattern of Asia-Pacific" was well attended and stimulated considerable productive discussion. It also produced a set of interesting papers and reports which form the basis of this volume edited by Lloyd R. Vasey, Executive Director, Pacific Forum, and Professor George R. Viksnins of Georgetown University.

The Pacific Forum and the Institute of Southeast Asian Studies wish to thank the Honourable S. Rajaratnam, the Foreign Minister of Singapore, for delivering the opening address. They also acknowledge the courtesies and hospitality extended by the Goodwood Park Hotel, Ltd. (Singapore), Sime Darby Holdings, Ltd. (Eastern International Division), the Bank of America (Singapore), the Development Finance Corp. Ltd. of Sydney, the Korean Traders Association, the United Overseas Bank Group (Singapore), Minnesota Mining and Manufacturing Co. (Singapore), and Intervest Inc. (Singapore).

It is also fitting that the Pacific Forum and the Institute should record their gratitude to the individual participants in the Conference for their contributions. Finally, while wishing the authors all the best, it is clearly understood that the responsibility for facts and opinions expressed in the proceedings, reports and papers that follow rests exclusively with the authors, and their interpretations do not necessarily reflect the views or policies of the Pacific Forum or the Institute.

**Kernal S. Sandhu**  
Director, Institute of Southeast Asian Studies

**Lloyd R. Vasey**  
Executive Director, Pacific Forum

# CONTENTS

## PREFACE

## INTRODUCTION

- The Economic and Political Growth Pattern of Asia-Pacific 1

## OPENING ADDRESS

- S. Rajaratnam* 10

## THE EMERGING POLITICO-ECONOMIC SETTING

- The Future of Asia-Pacific and the U.S. Role 21

*John H. Holdridge*

- Towards Progress and Stability in Asia-Pacific: A View From East Asia 40

*Kim Kyung Won*

- Outlook for Economic and Political Stability in Asia-Pacific 52

*Thanat Khoman*

## NEW ECONOMIC PATTERNS AND TRENDS

- The Economic Outlook — Opportunities for Cooperation and Progress in the Pacific: An American Opinion 61

*Walter E. Hoadley*

- The Role of the Private Enterprise System 75

*Julius Tahija*

- Opportunities for Future Cooperation and Progress: Economic Trends 86

*Erne Yamasita*

- Commodities, Resources and Raw Materials — A Future Strategy for International Cooperation 101

*Datuk Musa bin Hitam*

## **FOREIGN INVESTMENT AND THE NEW ENVIRONMENT**

The Foreign Investor in Asia-Pacific: A Suggested Framework for Regional Investment Policies <i>Sixto K. Roxas</i>	109
Panel: A Direction for Foreign Investments in Asia-Pacific. Comments on the OECD Document Published on June 21, 1976 <i>J.E. Bywater</i>	131
Investment Priorities in ASEAN <i>Augustine H.H. Tan</i>	136
A Direction for Foreign Investment in Asia-Pacific <i>James A. Thwaites</i>	143
Foreign Investments in Asia-Pacific <i>Tadayoshi Yamada</i>	149
The Emerging Non-Market Economies in Asia — China and Vietnam: Their Potential Impact on the Region <i>Louis E. Saubolle</i>	166
The Food Problem and Regional Cooperation <i>K.Y. Chow</i>	187

## **COMMITTEE REPORTS**

I The Political Outlook and Its Impact on Economic Progress <i>Chairman: Eric Khoo</i>	200
II Emerging Economic Patterns and Policies and the Impact on Economic Development <i>Chairman: Sir John Marks</i>	204
III Investment Policies and Proposals <i>Chairman: Clifton D. Terry</i>	206

## **CONFERENCE BACKGROUND PAPERS**

Perceptions of Future Stability in Asia-Pacific <i>Lloyd R. Vasey</i>	211
Asia-Pacific and the Emerging Economic Order <i>George J. Viksnins</i>	231

## **PARTICIPANTS**

268

## **THE ECONOMIC AND POLITICAL GROWTH PATTERN OF ASIA-PACIFIC: An Introduction**

The last quarter of the twentieth century promises to be a very significant time span in the history of the peoples of Asia-Pacific. In the political arena, the reconfiguration of the Indochina states has raised serious questions — at least in the minds of many outsiders — about the viability of neighbouring states. Even if the countries of the region can maintain their verve and avoid outright military conflicts, at least for the near-term future, the region still appears as a continuing battleground for competing ideologies. It is also economically a key area, and the struggle for influence among the major powers is certain to continue. The year 1976 itself, marked the end of a long and painful period of foreign military involvement in Indochina; the phase-out of U.S. facilities from Thailand in the spring of 1976 was the last step in the process of American disengagement, not entirely voluntary, from that particular area. While it may be too early to dismiss entirely the so-called “domino theory,” many observers are encouraged by the formation of a new spirit of national self-reliance and the emergence of increased regional cooperation in Asia-Pacific. Lessened dependence upon military alliances and American economic aid is resulting in new international relationships. Some very rapid shifts in alignment have taken place — and, in the eyes of many, such flexibility is very important to the long-run political stability of the region. Another area of considerable strength is the very rapid growth recently experienced by most of the countries of the Asia-Pacific region; despite the world-wide recession in 1974-75, the beginning of 1976 found all of the ASEAN economies in a stronger-than-ever position. While political alliances and military



relationships may be becoming less clearly defined, the economic integration of Asia-Pacific into what might be termed the "Free Enterprise Market System" is proceeding apace.

To set the frame of references for the Conference deliberations, the political speakers on the first day reiterated major themes. The first of these might be called the negation of the "domino theory." As the Hon. S. Rajaratnam noted in his Opening Address "... The usual approach of seeing Southeast Asia as a region divided between a monolithic, coherent, and a politically and economically dynamic bloc on the one hand and a fragmented, blundering, and conflict-ridden non-Communist area on the other has, in my view, no firm foundation." This theme was echoed by Dr. Kim Kyung Won of Korea, who pointed out that his country is growing so rapidly "... that there is no longer any room for serious doubt as to which side, South or North Korea, is going to be the winner in the competition ...." Non-Communist societies have been far more successful in achieving economic development and modernization, Dr. Kim continued, "... and, in the end, stability is linked more closely to the ability to grow and prosper than sheer military alliances or ideological orthodoxy."

A second theme concerned the importance of regional cooperation, i.e., the candid recognition that "united we stand, divided we fall." This argument was clearly enunciated by Dr. Thanat Khoman "... While ASEAN has so far chosen to adopt a low-key approach, in case of need and if the danger becomes more ominous and ascertainable, ASEAN may strengthen itself to meet the challenge. Although the organization may not be a match to Vietnam's juggernaut, it is endowed with an important political value and potential which the other side may be lacking. Learning our lesson from the Vietnam War, one is inclined to believe that, at least on certain occasions, the use of political means may be

as efficient, if not more so, than the military ones." The key role of the ASEAN organization was also stressed by Dr. Julius Tahija, Chairman of the Board of Caltex/Indonesia, who stressed the need for a greater private-economic contribution to the countries of ASEAN. (It was pointed out that the Pacific Forum may be useful in this connection.)

The third major factor taken up by the Conference participants concerned the U.S. role and the continuing close American identification with the viability of the area. While most observers agreed that a reduced, but potent, military presence would continue as the basic posture, the economic interests of American firms were predicted to increase over the long term. According to the Hon. John Holdridge, the American Ambassador to Singapore, the countries of Pacific Asia can attain their goals of political independence and economic development only if the existing balance of power in the region is maintained. This would require the U.S. to continue to carry the burden of leadership and provide a balance to the general rivalry between the U.S.S.R. and China; an effective U.S. military presence would continue, and also a certain amount of economic assistance (perhaps increasingly through multilateral aid agencies). Supportive themes were developed by representatives of the U.S. private sector; along these lines, Walter E. Hoadley of the Bank of America noted that a new sense of realism was entering the American political life. According to his assessment, there will be less willingness on the part of Americans "to go it alone" in foreign policies and programs, and the American electorate will increasingly want to know about "value received from foreign aid," particularly if we are talking about bilateral grant programs. According to J. A. Thwaites (of the 3M Company), there exists a great deal of misinformation about the activities carried out by the so-called multinational corporations, most of which are based in the United States. In particular, he pointed out that investments

by U.S. firms in the region were presently very low, and yet most countries in the Asia-Pacific region were heavily reliant upon foreign trade as their basic growth sector.

In the economic development of the Asia-Pacific region, significant changes have also been taking place. The non-Communist economies of ASEAN countries, plus the Republic of China, Hong Kong, and Republic of Korea have experienced extremely rapid GNP growth over the last five years. While many economists are beginning to question the advisability of setting up "Growth First" as a production goal for a country — as the Japanese participants at the Conference noted, their country is moving toward a "Living First" strategy in its latest economic plan — nevertheless, we should realize that most social and economic indicators are very closely correlated with the GNP level. This complex issue of national economic policy was treated in a very careful and sophisticated manner by the participants at the Conference. Of particular interest was the presentation made by Sixto Roxas of the Philippines who argued that rapid GNP growth very often accentuated "dualism" — by which we mean the uneven pace of development between the "urban enclave," which becomes more and more closely integrated into the free world market economy (in some cases becoming more "Western" than the West), and the rural "hinterland," where little change is taking place for the better. Mr. Roxas' proposal to redress this problem was accepted for further study.

Most of the economies of Asia-Pacific have been showing spectacular growth in GNP, even "real" GNP, after a correction has been made for price changes. This fact was noted in the advertising copy developed by the *Wall Street Journal* for its new cousin, a joint venture between Dow Jones and several prominent Asian newspapers, and discussed in Prof. Viksnin's paper:

.... *Asian economic growth is spectacular. [From] 1969-*

*1974 the GNP of nine East Asian countries grew at a rate nearly triple that of the world's industrialized nations — and almost four times that of the U.S. and this is real GNP growth — after eliminating inflation's effects! Examples of GNP growth: The Philippines, +34%; Thailand, +37%; Japan, +40%; Malaysia, +41%; Indonesia, +42%; Hong Kong, +58%; South Korea, +58%; Singapore, +72%; Taiwan, +143%. Today, trade between Asia and the U.S. exceeds that between the U.S. and the entire European Economic Community.*

This economic expansion in Asia-Pacific has been led by very fast growth in the export trade of the various countries. Again, as is mentioned in the background paper of Professor George J. Viksnins, trade results for the area countries have been spectacular in recent years — Indonesian exports (principally in petroleum) have grown by a compound annual rate of nearly 60%. South Korea is not far behind, with a yearly growth rate above 50%. Singapore, Thailand, and Taiwan experienced export growth rates of about 40% per annum, and all of the other area economies showed yearly growth rates of more than 20% as well.

All of these countries seem to be doing quite well under present economic arrangements — though all problems of material well-being have not been solved by any means, the region has shown considerable economic strength, even under the rather difficult economic conditions which have plagued the world economy recently. It is, to some extent, puzzling to some outside observers, therefore, that leaders of the region have decided “to cast their lot” with the so-called Group of 77 countries. An excellent summary and a spirited advocacy of this position was presented at the Conference by Y.B. Datuk Musa bin Hitam, the Minister for Primary Industries of Malaysia.

The Minister provided the Conference participants with a brief recapitulation of the proceedings at the Nairobi meeting

of the United Nations Conference on Trade and Development, known as UNCTAD IV. It will be recalled that the United States' proposal for an International Resources Bank was not adopted. The Group of 77 or the "South's" own position focused on the creation of a "Common Fund" to carry out an "integrated program" of price stabilization (in order to avoid deterioration of the terms of trade relative to manufactures), and this would be done on a "commodity-by-commodity basis." The general notion of smoothing out fluctuations in commodity prices through cooperative governmental efforts received strong endorsement at the Conference in Singapore, particularly from the Japanese participants, Eme Yamasita and Tadayoshi Yamada. While for some commodities physical buffer stocks might be used, as is currently the case with tin, for others, producer-consumer agreements may suffice. In the discussion of these proposals, it was argued that it may be unnecessary, or even undesirable, to index raw material prices in a world that is rapidly running out of resources, and that private market forces, already at work in most commodity markets, would be sufficient to keep price fluctuations within reasonable bounds. Counter to those arguments, some conferees pointed out that American representatives tend to use free market arguments on a theoretical plane, when it is most convenient for their position, but forget all about the free market when faced with practical decision-making matters (e.g., using embargos, quotas, and other such direct control measures).

Despite the very rapid growth experienced recently in export earnings and even real GNP, many of the developing country representatives expressed concern about the dualism problem mentioned earlier. The very first point of the Committee II Report (chaired by Sir John Marks) on "Emerging Economic Patterns and the Impact on Economic Development" was that "... increased emphasis be given to the problem of promoting rural development and raising agricultural

productivity in the Asia-Pacific region." A number of speakers reiterated the need to modernize and develop the agricultural base, involving, to the extent that it is possible to do so, private sector institutions in such an effort. The use of tax incentives and disincentives in the corporate sector, greater utilization of trading companies already familiar with the geographic area, and cooperative organizations were all ideas brought forth in the discussion. How to turn petroleum profits into rural development is a serious concern for policy-makers in Malaysia and Indonesia — while foreign exchange is available for new projects, on a per capita basis the amount is still rather small. Difficult questions of efficiency and equity remain, even if one has seriously decided to allocate more resources to the agricultural sector. Yet, despite this growing realization that dualism must be addressed explicitly, it was pointed out by Dr. Augustine H.H. Tan of Singapore that the recent ASEAN Economic Ministers' meeting made significant steps toward real regional cooperation, but this was done by approving an industrial investment project for each member country. While the projects are at least in agriculture-related fields, the point raised by Dr. Tan is well taken — we do play increasing lip service to the significance of the agricultural sector in the development field, but the best talent and the biggest budgetary allocations go to glamorous projects in industrial and technical fields.

As leaders of multinational corporations and other business ventures, many Conference participants showed considerable interest in the foreign investment field, particularly in recent changes in regulations governing joint ventures. While industrial development may have to be de-emphasized somewhat, so as to provide a better balance for agricultural development, all participants agreed that foreign capital and technology would continue to play a significant role in the economic development of the ASEAN countries. As Com-

mittee III (headed by Clifton D. Terry) on "Investment Policies and Proposals" concluded, the "... world-wide need for investment capital can be expected to exceed the presently identifiable supply. If this be true, then the countries of Asia-Pacific must recognize the need to create a truly competitive posture if they are to receive their fair share of available investment capital." The specifics of recent foreign investment trends in the region were discussed in the panel concerned with "Directions for Foreign Investment" by Messrs. Bywater, Tan, Thwaites, and Yamada. On the part of the recipient country, it was stressed that government actions should be clear and consistent, made within a reasonable time frame, and, above all, avoid retroactive application of administrative initiative. The problems of "unconventional practices" and "extraordinary charges" were privately discussed in a frank and open manner. One participant mentioned the development in many countries of "bureaucratic capitalism" — where bureaucrats oversee and regulate most of the decisions made by the capitalists, and force the capitalists to become bureaucrats in order to protect themselves. As far as foreign investor behavior is concerned, it is important for each subsidiary operation to become a good corporate citizen of the country in which it functions first, and view itself as a branch of an international business firm second. The problems of encouraging minority investments by foreign investors in joint ventures were discussed; it was pointed out that a number of governments are setting general quantitative goals to assure majority local ownership, but that these percentages could be modified somewhat on a case-by-case basis. While the OECD code governing foreign investment (brought up by J.E. Bywater) was extensively discussed at the Conference, it did not become a formal recommendation. It was indicated that further study and consideration was needed, since the Code had been approved by the OECD itself just very recently, and it was suggested

that a regional code to coordinate the ground rules on foreign investment may be more appropriate.

The perennial issue of food shortages was high-lighted in a paper circulated in advance of the meeting by K. Y. Chow who suggested an innovative regional concept of cooperation. His proposal was endorsed in principle and has been referred to the ASEAN Secretariat.

As a way of summarizing the conclusions of the Conference, we can take up briefly the conclusions reached by Committee I (with Eric Khoo at the helm). The Committee pointed out that recent political events had "... created an atmosphere of unpredictability which brings both opportunities and dangers to medium and small countries." In many of the area countries, the incumbent élites have tended to turn inward and pursue more nationalistic policies in the economic area. Ironically, however, national development and economic growth can only be achieved by links with outside markets and sources of investment capital. The Committee report went on, however, to warn that the U.S.S.R. and the PRC are competing with each other to subvert the economic and financial system which has emerged in the "free world" countries. At the very least, as was noted in the expert commentary provided by Louis E. Saubolle, area countries should be aware of both China and Vietnam as potential commercial rivals. Both countries have large and well-disciplined labour forces, as well as a diversified resource base; while China's infrastructure remains rather inadequate, Vietnam inherited a well-maintained infrastructure and can probably begin exporting both agricultural and industrial goods in the very near future. Whether such commercial competition will be all that the Asia-Pacific countries will need to consider remains the overriding question. U.S. interests and influence in the region should continue to grow and develop in the near future, and the overall tone of the Conference wound up as guardedly optimistic.



## OPENING ADDRESS

*S. Rajaratnam*

From time to time I am asked whether, in view of the decline of European and American power in Southeast Asia, the non-Communist states comprising ASEAN would not eventually go the way of Indochina. What I propose to do tonight is to give a more detailed answer than I have done hitherto. It is essentially an optimistic one. It is not wishful thinking — a case of whistling in the dark.

I would however like to preface my optimistic evaluation of ASEAN's prospects by conceding that the ASEAN countries have entered a period of instability and turbulence. These derive from many sources, and not simply, as most political analysts imply, as a result of American military withdrawal from the region and the emergence of Communist régimes in Indochina. These latter two are contributory factors but even without them the ASEAN states would be encountering many of the social, economic and political problems they face today.

So the first point I would like to stress about the apparent turmoil in ASEAN states is that it is not peculiar to ASEAN states. Political and economic instability is global in dimension. There are very few states in the world, Communist or otherwise, which are not filled with a sense of uncertainty about their future simply because the world system which embraces us is itself out of control. There are many other regions of the world about whose future I would be more uncertain than I would be about ASEAN. Compared with the turmoil in the Middle-East and in Africa the ASEAN states, in my opinion, are a haven of relative stability and tranquillity. ASEAN's instability is largely seen in terms of the challenge of Communism.