

ASEAN ECONOMIES



BANGKOK BANK BOOKLET

This booklet has been
prepared by the staff of the
Research Office, Bangkok Bank Limited,
333 Silom Road, Bangkok, Thailand.

CONTENTS

- 1 INTRODUCTION
- 4 BRUNEI
- 18 REPUBLIC OF INDONESIA
- 37 MALAYSIA
- 55 REPUBLIC OF THE PHILIPPINES
- 71 REPUBLIC OF SINGAPORE
- 87 THAILAND

■ ■ ■

ASEAN ECONOMIES

Introduction

Formally established on August 8, 1967 through the signing of a Joint Declaration by the Foreign Ministers of the first five member states in Bangkok, the Association of South-East Asian Nations (Asean) is a grouping of six member countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand and, the latest addition, Brunei Darussalam. Geographically, Asean sits snugly on the western rim of the Pacific Basin that stretches from Korea and Japan in the north to Australia and New Zealand in the south. The Basin is, today, generally regarded as the world's most dynamic area.

Asean represents a market of roughly 280 million people – about the size of the EC or the USA – with a combined land area of over 3 million square kilometres. Boasting a combined regional GDP of some US\$230 billion, Asean has been frequently cited as one of the world's best naturally endowed regions. Taken together, Asean nations' exports of such commodities as natural rubber, tin, tropical hardwood, palm oil, coconut products, tapioca and pepper, account for high percentages of the world market, ranging from 60 to 90 per cent. Furthermore, Brunei, Indonesia, the Philippines and Thailand are major exporters of oil, LNG, copper and rice respectively. Thanks to its rich resource base, Asean is the only region in the world which is both a net exporter of food (because of Thailand) and a net exporter of energy (due to Brunei, Indonesia and Malaysia).

In growth terms, Asean outperformed the rest of the world over the past two decades with three of the world's top five performing economies between 1972 and 1982, namely Singapore, Malaysia and Thailand. The sextet has in the recent past been rightly pursuing an export-led growth strategy. This has been reasonably successful, benefiting its populace, while Asean-world trade has grown to exceed US\$130 billion and Asean-US trade alone is approaching US\$35 billion. In consequence, the Association is an economic force to be reckoned with. Meanwhile, intra-Asean trade has likewise been growing, from US\$17.8 billion in 1979 to US\$33.6 billion in 1983 and further to an estimated US\$38 billion at present. Despite this growth, the potential for increased trade among the member countries remains largely unexploited. The member countries have agreed to

such measures as the Asean Preferential Trading Arrangement (put into effect since 1977), as a means to facilitate intramural trade through a system of preferential tariffs and the elimination of regional trade barriers. But more efforts than these are needed, and it has been increasingly suggested that the member countries introduce measures aimed at turning the Association into nothing less than a common market.

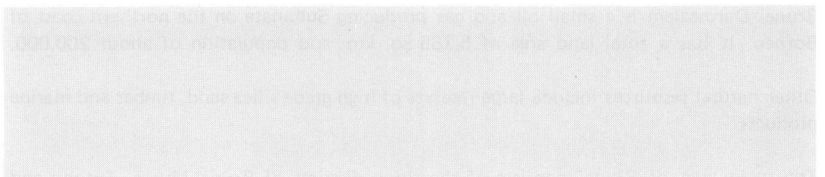
In addition to the strong emphasis placed on international trade, other areas with a high degree of commonality within the region include the following.

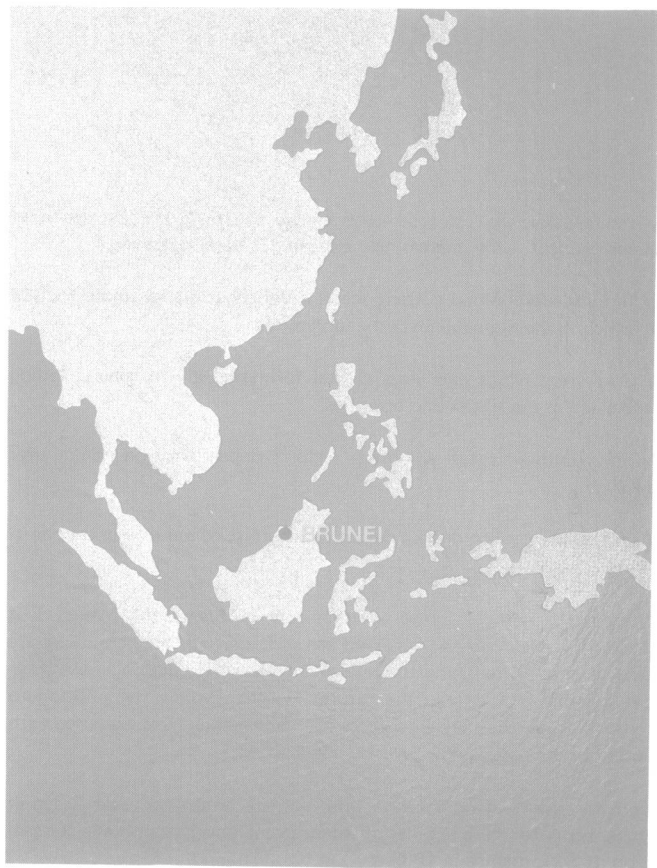
- The implementation over the long-term of relatively well selected development policies based on national consensus rather than political ideologies.
- A dynamic private sector acting as the engine of growth for the national economies.
- High rates of domestic savings and capital investment enabling the Asean economies to substantially finance their own growth.
- The use of foreign investment and assistance, of which there has been an abundance because of the region's close relationship with the western industrial powers, to supplement rather than supplant domestic savings. Strong promotional measures have attracted foreign investment into the region, which was conservatively placed at US\$35 billion from 1967 to 1983. As an example of foreign assistance, the Asean countries have together accounted for 50 per cent of the Asian Development Bank's total lendings, while Indonesia and Thailand are the two largest recipients of Japanese bilateral development assistance.
- Relatively open, free market, free trade-oriented economies.
- On the whole, the maintenance of prudent monetary and fiscal policies considering the high-growth operating environment which prevailed throughout the sixties and seventies.

However Asean is not without problems, the principal of which commonly faced by members include the following.

- Substantially reduced growth rates to levels below the historical average have nudged up unemployment, while increasingly exposing underlying poverty.
- The region is running a combined current account deficit of approximately US\$9 billion a year, which is unsustainable over the long-term.
- The rates of domestic savings and gross capital formation are in general falling below those sustained in the sixties and seventies.
- Commodity price continue to fall while the region's dependence on commodity exports remain high.
- Most of the Asean countries face budget deficit which must be reduced in the short- to medium-term.
- While the Philippines is mired in grave external debt problems, the foreign debt profiles for Indonesia, Malaysia and Thailand are such that all three countries are now committed to sharply reducing the rate of increase of foreign borrowings in order to avoid possible problems in the future. In other words, their option to borrow their way through the prevailing recession, which they have exercised with reasonable caution in the past, is now severely constrained.

Having touched upon the points in common — both positive and negative of Asean at some length, one now turns to the examination of each member's economy, concentrating in particular on its performance in 1985 ■



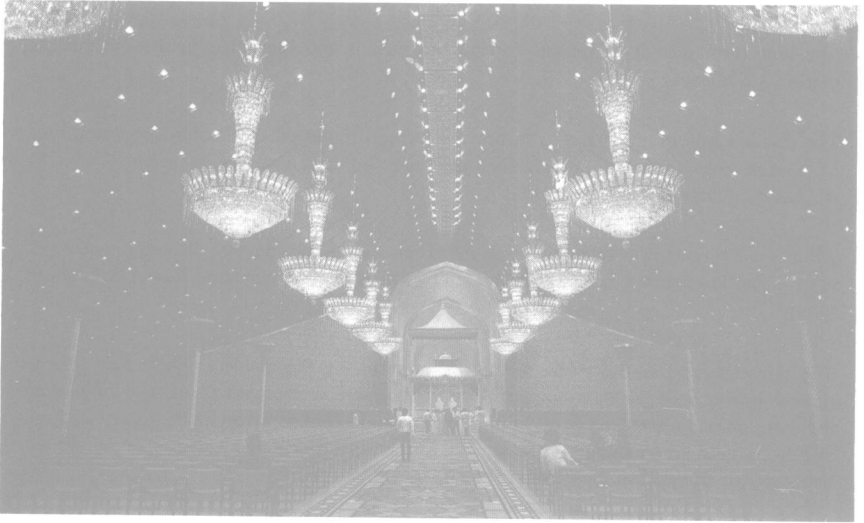


BRUNEI

Brunei Darussalam is a small oil and gas producing Sultanate on the northern coast of Borneo. It has a total land area of 5,765 sq. km. and population of about 200,000.

Other natural resources include large reserves of high grade silica sand, timber and marine products.

The main area of Brunei consists of the three districts of Brunei-Muara, Tutong and



Belait. To the east is temburong district. The capital and main center of population is Bandar Seri Begawan. Seria and Kuala Belait are oil and gas centers.

With an annual per capita income of US\$22,000 Brunei's inhabitants enjoy one of the highest standard of living in Asia. There is no personal income tax, while medical services and education to secondary level are free and there is a pension system for the aged to boot.

Most of the population are Malays, but there are an estimated 70,000 non-Malays, most of whom are Chinese. The non-Malay indigenous people are mainly Ibans and Dusans.

Government and politics

The State is ruled by HM the Sultan Yang Dipertuan, Sir Muda Hassanal Bolkiah Mu'izzaddin Waddaulah, who is also Prime Minister, Minister of Finance and Minister of Internal Affairs. He is assisted by a council of Ministers.

The Sultan is slowly turning Brunei into an Islamic State, and encourages ethnic Malays

to take a greater role in the economy.

The long term plan is to replace foreign technicians and specialists in the oil and gas sector with Malays.

The Chinese role in commerce is meanwhile being suppressed. Their status has been that of a state-less residents since Brunei assumed full responsibility as a sovereign and independent state at the end of 1983.

While the Chinese who have been given few rights are getting out, Brunei is swamped with illegal immigrants, because Malays prefer to be civil servants and labour is in short supply.

The government has been very active in modernizing the country. Each year a large budget is allocated for development. The Economic Development Board and Economic Planning units are working hand in hand to promote foreign investment. Incentives have also been given to encourage a greater Malay role in business and industry and ways are being sought to improve the quality of its human resources.

International and Defence Policy

The Sultan has been very successful in his handling of foreign policy. Brunei enjoys a friendly relationship with the world community. Relationships with Malaysia and Indonesia, which once interfered with Brunei's internal politics, are smooth. Brunei has, since shedding the status of British protectorate, joined several international organizations namely:

1. The Common wealth
2. The Islamic Conference Organization
3. The Islamic Development Bank
4. Asean
5. The United Nations

Brunei is expected to join OPEC shortly.

The Economy

Brunei is not only an important oil producing country, it is also the fourth largest gas exporter in the world. Since approximately 99 per cent of its export earnings come from oil and gas, Brunei's economy is sensitive to changes in world prices of these products. However, the world oil glut and the reduction of oil prices have not had much impact on the economy because its financial strength remains due to its vast external reserves, favorable balance of payments and increasing revenue from investments locally and abroad. Unlike other developing countries, Brunei has no national debts nor external obligations to worry about. This healthy state of affairs augers well for the future.

Economic Growth

After peaking at Br\$10.6 billion in 1980, GDP continuously declined and stood at Br\$ 8.0 billion in 1983. In consequence growth in recent years fell short of the 6 per cent target rate set in the current Fourth Development Plan.

Moreover, Brunei's per capita income, which was ranked the second highest in the world after the United Arab Emirates in 1982, according to the World Bank, slipped to the third place in 1983 at US\$21,140 after Qatar's US\$21,170. Some government Officials are anxious about the negative growth rate in recent years, particularly those who do not believe that its oil's reserve will last for 20 years as they had been told.

GDP in 1985 is estimated to decline due to a weak global oil market.

Price Stability

The consumer Price Index (CPI) growth rate peaked at 9.1 per cent in 1981, compared with the 5.7 per cent average rate in the previous three years (1978-1980). However, inflation declined to an estimated 1.2 per cent in 1983, due to lower prices of imports, particularly food items and an increasingly strong Brunei dollar. The inflation rate was about 5 per cent in 1984, as food prices were stable but house rents doubled and the economy was more buoyant. The rate of price increase in 1985 should fall to 5 per cent.

External Position

After peaking at Br\$9.9 billion in 1980, exports fell gradually to Br\$6.8 billion in 1984

Brunei Principal Exports and Imports

	1978	1979	1980	1981	1982	1983	1984
Major exports (m B\$)							
1. Crude oil	2,618.6	3,936.4	6,090.2	4,777.8	4,572.5	4,000.0	3,840.1
2. Natural gas	1,320.8	1,480.4	3,045.4	3,397.2	3,275.0	2,891.4	2,852.4
3. Petroleum products	165.2	285.6	577.1	322.9	226.3	199.9	35.7
4. Natural rubber	0.5	0.5	0.8	0.8	0.0	0.1	0.0
5. Sawn timber	0.2	0.3	0.1	0.2	0.1	0.2	0.1
Major imports (m B\$)							
1. Machinery and manufactured goods	80	101	237	191	284	284	184
2. Vehicles	50	57	109	104	109	134	129
3. Iron ore and steel	108	92	157	158	168	110	93
4. Electrical goods	49	146	80	92	122	109	97
5. Mineral ore	25	39	50	54	158	78	56

Source: Economic Planning Unit.

Brunei External Trade by Country

	1978	1979	1980	1981	1982	1983	1984
Exports by country (m B\$)							
Japan	3,107.6	4,109.4	6,984.0	5,925.9	5,509.9	4,857.2	4,662.5
Singapore	203.4	348.1	645.2	602.9	486.9	447.8	490.0
Thailand	52.4	87.1	404.9	271.7	208.6	333.3	442.6
USA	383.3	485.3	847.4	918.6	1,037.2	581.1	377.4
Korea	n.a.	n.a.	0.0	0.8	346.8	540.0	370.2
Imports by country (m B\$)							
Singapore	140.5	183.3	233.5	299.7	328.0	351.8	322.0
USA	97.1	144.9	246.8	236.4	267.0	300.7	202.5
Japan	154.6	221.3	291.5	283.1	370.6	295.4	265.8
UK	68.2	85.8	120.3	115.0	110.6	121.6	115.8
West Malaysia	28.1	32.0	43.5	56.2	58.4	58.1	64.2
Australia	11.3	19.1	20.6	27.4	36.7	41.4	43.8
Thailand	17.9	18.8	30.7	31.6	29.4	35.1	33.8

Source: Economic Planning Unit

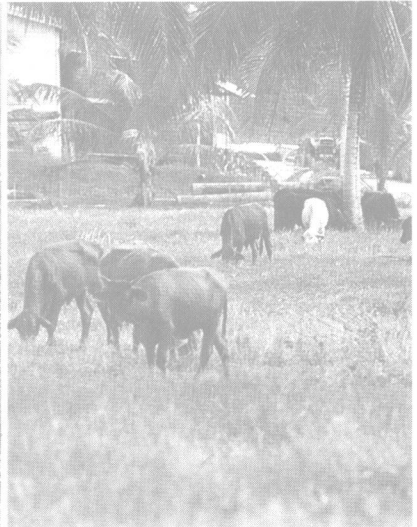
e = estimated

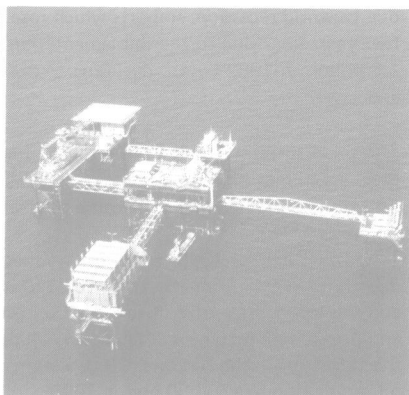
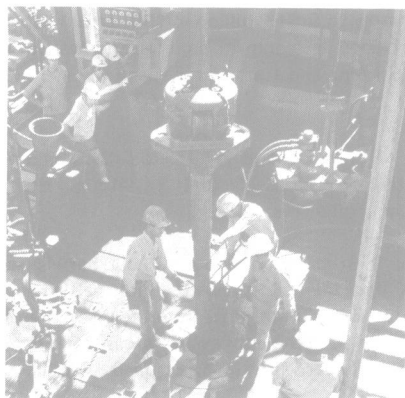
due to world recession. Imports which rose sharply to Br\$1.2 billion in 1980 grew further two years later due to the implementation of many development projects, and peaked at 1.6 billion in 1982 before declining to Br\$1.5 billion and 1.3 billion respectively in 1983 and 1984.

The trade surplus shrank from a record high of Br\$8.6 billion in 1980 to Br\$7.3 billion, Br\$6.6 billion, Br\$5.6 billion and Br\$5.5 billion respectively in 1981 through 1984. This trend pertained mainly because of weakening oil prices.

In the first half of 1985, crude oil production in Brunei ran at about 130,000 barrels per day (bpd) down from the target of 170,000 bpd, due to depressed worldwide demand and the lower price of crude. Brunei oil production will not grow from the present level and Brunei's oil income will fall again. Oil production in the last two years was lower than the target set in the National Oil depletion policy under which it was planned to cut back oil production to 150,000 bpd in 1990.

Brunei is self-sufficient in major oil products. A Br\$104 million oil refinery at Seria, which has been in operation since 1983, can produce 10,000 bpd while its consumption is only 5,000 bpd.





Brunei's major trading partner in oil and gas, as well as other commodities, is Japan. Other major trading partners include Singapore, the United States, the United Kingdom, Korea and Thailand. Brunei's imports come mainly from Singapore.

Brunei External Trade Statistics

	1978	1979	1980	1981	1982	1983	1984
International trade (m B\$)							
Imports	4,195	5,796	9,853	8,592	8,153	7,171	6,814
Exports	639	862	1,231	1,265	1,572	1,542	1,332
Trade balance	+ 3,556	+ 4,934	+ 8,622	+ 7,327	+ 6,581	+ 5,629	+ 5,482
Exports (mB\$)							
1. fuel (percentage shares)	4,105(97.8)	5,704(98.4)	9,714(98.6)	8,500(98.9)	8,075(99.0)	7,093(98.9)	6,730(98.8)
2. machinery and vehicles	28	30	45	30	44	42	32
3. resource based manufactured goods	47	45	47	21	11	11	21
4. manufactured goods	7	7	31	28	13	12	10
5. foodstuff	4	4	4	5	5	5	8
Imports (mB\$)							
1. machinery and vehicles (percentage shares)	194(30)	349(40)	498(40)	470(37)	562(35)	588(38)	466(34)
2. resource based manufactured goods	192(30)	193(22)	298(24)	311(24)	459(29)	324(21)	271(20)
3. foodstuff	96(15)	110(12)	147(11)	177(13)	184(11)	189(12)	205(15)
4. manufactured goods	48(7)	68(7)	85(6)	97(7)	118(7)	144(9)	119(8)
5. chemicals	43(6)	59(6)	102(8)	100(7)	110(6)	117(7)	102(7)
6. beverages & tobacco	23(3)	25(2)	32(2)	41(3)	49(3)	64(4)	70(5)
7. fuel & lubricants	14(2)	16(1)	24(1)	17(1)	22(1)	21(1)	21(1)

Public Finance

Government revenue in 1984 is estimated at more than Br\$6.5 billion while expenditure was approximately Br\$2.6 billion, leaving a fiscal surplus of Br\$3.9 billion. The Brunei government's fiscal position is so firmly based that world recession does not affect the budget. The Government is unlikely to collect personal income taxes from the local people because its income from oil and gas together with that from overseas investments exceed the requirements of development projects and the welfare of its people. The 1985 budgetary expenditure totalled Br\$2,069 million, of which the lion's share has been allocated to the Ministry of Defence (19 per cent), followed by the Ministry of Finance (17 per cent), the Ministry of Education and Health and the Ministry of Development (16 per cent each). These allocations account for almost 78 per cent of total expenditure.

Monetary and Banking Policy

The government maintains minimum control over the money supply as it does not have

Brunei's Key Economic Indicators

	1978	1979	1980	1981	1982	1983	1984	1985
Population ('000)	173.0	179.0	185.2	192.8	200.4	207.9	214.4	
Growth								
GDP (current prices) m B\$	4,415.2	6,097.1	10,553.6	9,224.6	8,956.9	8,015.3		
GDP (constant prices) mB\$	3,736.3	4,579.3	4,258.9	3,414.5	3,483.1	3,479.9		
Growth rate	+ 6.8	+ 22.6	- 7.0	- 19.8	+ 2.0	- 0		
Mineral and industry GDP (constant prices)	3,020.2	3,840.7	3,361.5	2,541.7	2,566.8	2,466.6		
Percentage of GDP (%)	80.8	83.8	78.9	74.4	73.7	70.9		
Public Finance								
Revenue (mB\$)	2,465.6	2,386.5	6,266.3	8,454.3	7,871.5	7,752.8		
Expenditure (mB\$)	743.6	1,078.9	1,140.7	1,377.9	1,742.0	5,230.1		
Budget balance (mB\$)	+ 1,722.4	+ 1,307.6	+ 5,125.4	+ 7,076.4	+ 6,129.5	+ 2,522.7		
Reserves				19,877	24,000	30,519		
Price level								
Consumer price index	105.4	112.3	118.2	129.0	137.2	138.8		
% increase	+ 5.4	+ 6.5	+ 5.3	+ 9.1	+ 6.4	+ 1.2	+ 5 ^e	+ 3 ^e
Oil production capacity bpd				173,000	175,000	179,000	129,000 ^e	139,000 ^e
Oil output (m barrels)				64.25	63.8	65.3		
Gas (m tons)				5	5	5		

Source: Economic Planning Unit.

NATIONAL BUDGET 1985

Development Fund	B\$200,000,000	(10%)
Prime Minister's Department	B\$169,491,618	(8%)
Finance Ministry	B\$341,767,143	(17%)
Internal Affairs Ministry	B\$84,713,254	(4%)
Defence Ministry	B\$384,515,810	(19%)
External Affairs Ministry	B\$50,749,767	(2%)
Culture, Youth and Sports Ministry	B\$71,525,638	(3%)
Law Ministry	B\$35,993,479	(2%)
Communication Ministry	B\$76,799,667	(3%)
Education and Health Ministry	B\$332,110,341	(16%)
Development Ministry	B\$321,525,203	(16%)
Total	B\$2,069,191,920	

Source: The National Bank of Brunei's Annual Report 1984.

mechanisms and trained personnel to implement strict monetary policies. However, the government, due to its 50 per cent shareholding in Brunei Shell Petroleum, is in a position to control money supply in the country quite effectively. The rate of growth of money supply is around 20 per cent per annum.

The Brunei dollar is freely interchangeable with the Singapore dollar at the same parity. Total circulation of Brunei currency notes as at 31st December 1984 was estimated at over Br\$200 million (1983:Br\$218.2 million). The total value of currency notes repatriated by the Singapore Currency Board to Brunei in 1983 was Br\$249.2 million. Based on the Singapore money market, Brunei's interest rates are announced by the Brunei Banking Association. Unlike other countries, there are no special regulations covering banks, which need not hold government bonds as required reserves. Moreover the government will not intervene to resolve problems arising from mismanagement or other causes leading to bank failures.

There are nine commercial banks with a total of 41 branches currently operating in Brunei, Hong Kong and Shanghai Bank is the oldest. The two locally incorporated banks are the National Bank of Brunei and the Island Development Bank. Banking business is quite competitive and the government is reluctant to permit any new banks to open at present. However, existing banks are free to open new branches.

Private savings in Brunei are slowly increasing but deposits from the government sector are quite large and represent the largest share of bank deposits. Construction obtains most of the banks' lendings. Foreigners can open banking accounts or even borrow from banks in Brunei, but the banks are unwilling to lend for investment portfolios outside the country.

Banking business in Brunei yields high profits which tend to increase every year.

There are seven finance companies in Brunei as follows: Citicorp Finance, Credit Corporation, Inch Roy Credit, Investment and Finance Kalimantan, Mortgage and Finance, United National Finance and National Finance.

Numerous insurance companies operate in Brunei. The majority of these are branches of international firms. There are no regulations covering insurance, other than for motor vehicles. However the government plans to introduce a new Insurance Enactment. The insurance market is not well developed and commission tends to be very high.

International Reserves

Brunei Darrussalam has accumulated vast international reserves of more than Br\$30 billion over the years. These reserves are handled by the Brunei Investment Agency (BIA), an organization run by local officials with foreign advice. The foreign advisors are two American banks-Morgan Guaranty Trust and Citibank, and two Japanese securities firms-Nomura and Daiwa. The Brunei investment portfolio is said to be prudently and professionally managed. The reserves are estimated at Br\$35 billion in 1985.

Development Plan

Over the last 10 years, the government has been trying to diversify its economy away from total dependence on oil and natural gas. However the implementation of the industrial and agricultural development scheme as outlined in the Third and Fourth National Development Plans (1975-1979), (1980-1984) has been unsuccessful. The bill for food imports grew to B\$205 billion or 15 per cent of total imports in 1984. Machinery/vehicles and industrial goods imports accounted for 34 per cent and 20 per cent of total imports in 1984 respectively.

Industrial sector

Because the population base is too small to sustain much industrial output, activity in this sector is limited to brick making, furniture manufacturing and soft drink bottling. Despite the government's generous incentives, there is no foreign investment in these areas.

Construction Sector

Over the years the pace of infrastructure construction has been fast. The government has expanded Muara port, constructed a Br\$48 million airport terminal, four-lane highways, a supreme court building, a national stadium, a 530 bed hospital, a power plant and a Br\$ 600 million palace. Most contracts are awarded to international construction companies.

Oil and gas sector

The government and Shell have equal shares on Brunei Shell Petroleum and Brunei Shell Marketing Co. Equity in Brunei Coldgas and Brunei LNG is split evenly among Mitsubishi Shell and the government.

