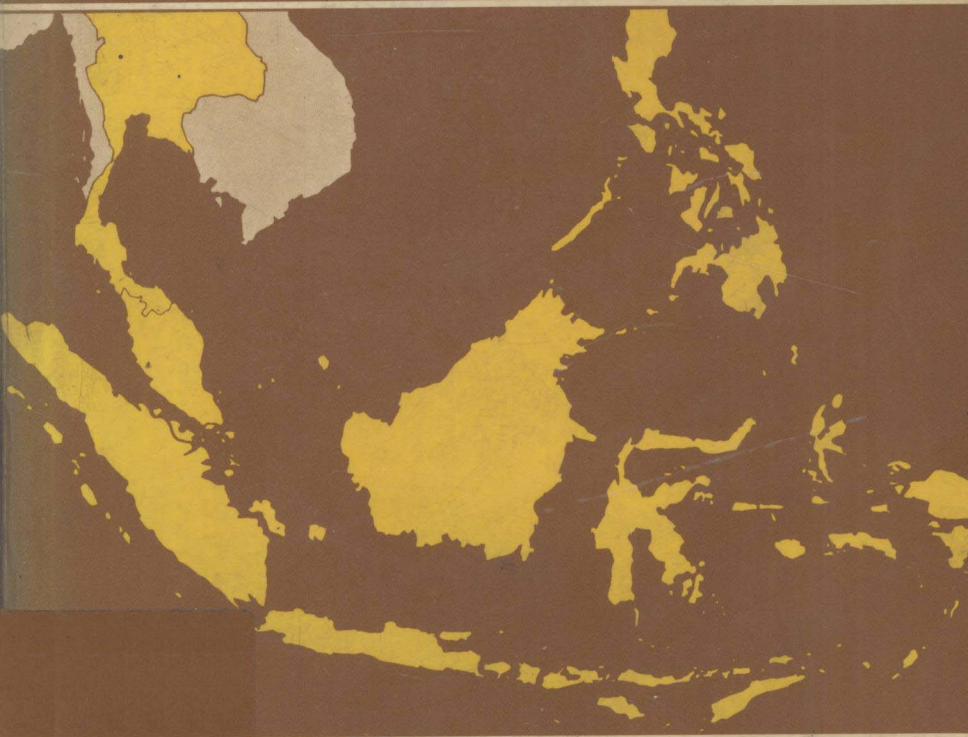


ASEAN ECONOMIES IN PERSPECTIVE

**A Comparative Study of
INDONESIA, MALAYSIA
THE PHILIPPINES,
SINGAPORE & THAILAND**



John Wong

ASEAN Economies in Perspective

A Comparative Study of
Indonesia, Malaysia, the Philippines,
Singapore and Thailand

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First published 1979 by
THE MACMILLAN PRESS LTD
London and Basingstoke
Associated companies in Delhi Dublin
Hong Kong Johannesburg Lagos Melbourne
New York Singapore and Tokyo

Printed in Hong Kong

British Library Cataloguing in Publication Data

Wong, John

Asean economies in perspective.

1. Association of South-east Asian Nations
2. Asia, Southeastern — Economic conditions

I. Title

330.9'59

HC442

ISBN 0-333-24063-4

ISBN 0-333-24064-2 Pbk

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Preface

My interest in the five Southeast Asian economies which together constitute the Association of Southeast Asian Nations (ASEAN) originally stemmed from my study of their external economic relations with East Asia, particularly with China. A few years back, before ASEAN became a popular term in the region and outside, I undertook a general background study on the ASEAN economies for the Singapore Airlines, in collaboration with a few colleagues of mine. The project gave us an opportunity to travel around the ASEAN capitals to collect up-to-date economic data to supplement the celebrated holdings of the Library of the Institute of Southeast Asian Studies in Singapore. Subsequently I became a consultant to the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP, formerly ECAFE) on development planning and have since prepared more in-depth studies on the ASEAN economies for them. The consultancy with this regional UN body provided me with further opportunities to obtain access to source materials from the international and regional agencies and also from the national governments. This book is an outcome of all these opportunities and efforts over the past few years.

I am not an 'ASEAN expert' in the proper sense of the word, and probably no one could claim such a title. It is difficult enough to establish oneself just as a country expert, let alone a regional expert, which in the ASEAN case implies combining the expertise on five countries into one!

This book attempts to treat the ASEAN economies as an integral whole. To enable a wide range of important topics to be covered in this limited volume some rigour is inevitably sacrificed for generality. However, there is no lack of specialised country monographs dealing with various aspects of the individual ASEAN economies. There is a need for this kind of study to present a critical perspective on the ASEAN economies as a whole to a wider audience.

One distinct feature of this book is its utilisation of a wide variety of source materials, the bulk of which is not readily available outside the region. A significant number of my sources are works of Southeast Asian nationals and leading economists in the region, partly because such works are of limited circulation outside their countries, and partly because their inclusion brings some regional viewpoints to the discussions in this study. Many statistical tables are arranged to be self-contained so as to provide supplementary information to the text.

For this book I am intellectually indebted to a diverse group of professional colleagues and friends. Many of my colleagues at the University of Singapore have given generous comments, particularly Lim Chong Yah, George Betz, Lee Soo Ann and Mukul Asher. Morris Morkre of the University of Hong Kong has read through the first draft thoroughly and extended detailed criticisms. To him I owe a special ~~thanks~~ ^{thanks}. Similarly I am indebted to Gonzales Jurado of the University of the Philippines and Udom Kerdpibule of the Kasetsart University, Bangkok. I have benefited from discussions with colleagues at the Development Planning Division of ESCAP, especially Ryokichi Hirono, Tsuneo Nakauchi, Ian McDougall and Donald Blake. I am similarly obliged to Vernon Ruttan of the Agricultural Development Council, New York, and Sura Sanittanont of the Bank of Ayudhya, Bangkok. Unfortunately it is not always possible for me to incorporate all of their valuable comments in this modest exercise.

I am also grateful to John Drysdale of Asia Research, Singapore, and to John Clammer of the University of Singapore for their useful editorial comments.

Finally, it is my pleasure to record my appreciation of my wife, Aline Wong, a sociologist at the University of Singapore, for her intellectual and emotional support throughout.

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The Association of Southeast Asian Nations (ASEAN)

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Introduction

ASEAN's Road to Regionalism

The Association of Southeast Asian Nations (ASEAN) is a regional organisation which was formally established in Bangkok on 8 August 1967 upon the signing of the Joint Declaration by the foreign ministers from the five Southeast Asian countries, namely, Indonesia, Malaysia, the Philippines, Singapore and Thailand. As its main objectives, the ASEAN organisation is devoted to the promotion of regional co-operation in the economic, social, cultural and technical fields. In the first few years of its existence ASEAN made little progress towards any substantial regional co-operation beyond laying down the framework for the five member countries to work out their consensus through periodic consultation. In recent years, however, especially after the political transformation of Indo-China in 1975, the wheels of ASEAN have really begun to move. Various issues of co-operation have been seriously considered and efforts made towards their implementation. Increasingly, ASEAN is becoming a vital political, social and economic grouping, which has already engaged growing attention from the superpowers as well as from Japan, Australia and New Zealand.

Geographically, ASEAN constitutes the peninsular and the archipelago parts of the broadly defined historical 'Southeast Asia'—in fact the bulk of 'Southeast Asia', as is readily confirmed by a brief look at the map. In terms of location the ASEAN region stands at zones of convergence for various transoceanic routes between the heavily populated Indian

subcontinent and the Chinese mainland, and between Europe, Australia and North America. The advent of the aviation age has not diminished but has in fact reinforced those locational advantages, for the region still forms the terminus of important transit points for the world's major inter-continental air routes. History has also played its role in the region's development. Long before the arrival of the seafaring Europeans in the Age of Discovery, the region had drawn traders, and later migrants, from China, India and the Middle East. Spices and other tropical commodities were in high demand in other lands. Indeed it was the lucrative spice trade that had largely motivated the Europeans to come to Southeast Asia; their subsequent decision to gain control of the trade led to their political domination of the region, with Thailand being the lucky exception. Under the European colonial rule the economies of the region were developed and structured to complement the economies of the respective metropolitan countries. Thus the primary resources of the region were exploited, and the plantation sectors developed, so as to provide raw materials for the industrialised economies of Europe and North America.

Western colonial domination has left many indelible marks on the ASEAN economies. Despite years of efforts of decolonisation after their independence, many ASEAN countries are still highly integrated economically with the industrially advanced countries today. These close economic links are, of course, no longer sustained by political and military forces, but through trade and the whole web of linkages comprising finance, money, technology as well as direct foreign investment.

ASEAN today comprises a heterogeneous region in terms of culture, languages, religions, ethnicity, history and traditions. Great disparity also exists between the member countries in respect of physical area, population size, and stages of economic development. As shown in Table 1.1, Indonesia is by far the largest country in the region in terms of land area and population size but her economic development lags behind the others. At the other extreme stands the city-state of Singapore, which is infinitely smaller by physical size but has a disproportionately larger economic muscle which is out of step with

the region's general stage of development. In 1975 Singapore's population was less than 2 per cent of Indonesia's, but her gross domestic product (GDP) came to 20 per cent of the Indonesian level.

Despite great economic and social diversities, and other similar obstacles to regionalism, there is none the less sufficient common ground and rationale for closer co-operation in various fields in the region. Among the cohesive forces operating in favour of regionalism, one is that the ASEAN countries are all committed to rapid economic growth as their top national priority, which, as they also realise, can be achieved only through their own effort and not by relying on external economic aid from the industrially advanced countries. If national 'self reliance' is often too unrealistic a policy to pursue for achieving rapid economic growth, 'self reliance' on a regional basis is an acceptable alternative, an idea currently gaining ground rapidly in the Third World. The energy crisis and the raw materials boom in the early 1970s have brought about a shift in the balance of international economic relations between the primary-producing developing countries and the consuming developed countries, bringing home a further lesson to ASEAN that by acting solidly as a group they could exploit more leverage and secure a more equitable participation in the growth of the international economy.

In the political domain all the ASEAN countries share a mutual concern for greater physical security, which demands internal stability as well as a new regional equilibrium. The security motive is a sufficient incentive for the ASEAN countries to subordinate their diverse national interests to joint action. In fact such a concern increased sharply in the immediate post-Vietnam aftermath, which provided a much-needed impetus to escalate the ASEAN organisation into its present higher level of co-operation.¹

Regionalism for Southeast Asia is not an entirely new phenomenon. In the 1950s the region saw the emergence of SEATO, which was initiated by the United States and dominated by Western powers, with only two countries from Southeast Asia being full members. Furthermore SEATO was primarily a politico-military set-up, twisted for some Cold War purposes. Then came ASA and Maphilindo in the 1960s, which

were still motivated by political considerations but which actually never lived beyond infancy.² In the economic field several attempts were made in the 1960s for closer economic co-operation and a number of regional projects (e.g. the Southeast Asian Fisheries Development Centre) were undertaken, under the auspices of the Ministerial Conference for the Economic Development of Southeast Asia (MCEDSEA). However, these co-operative efforts were primarily confined to technical research, training and information exchange, leaving out entirely such substantive issues as co-operation in trade.³ Hence little headway had been made in terms of genuine economic co-operation, and the search continued for a more viable framework within which the potential for greater economic co-operation could be better exploited.

From the start ASEAN seemed to hold promises for a more fruitful approach to regionalism. It is a truly indigenous organisation, with central focus being away from political and military considerations. It was most realistic to have Indonesia, by far the largest country in the region, as one of the charter members, for this at once symbolised the end of Indonesia's confrontation and the beginning of her reintegration with the region. None the less, ASEAN accomplished very little in its first few years, especially in terms of greater regional economic integration. Hence Singapore's Prime Minister Lee Kuan Yew, at the Fifth Ministerial Meeting held in Singapore in 1972, specifically pointed out the sluggish progress in trade and industrial co-operation, even though there had been a greater understanding of each other's problems.⁴

In retrospect, the first five years of ASEAN constituted a period of nurturing consensus through consultation, planning and adaptation. The slow progress in the initial period, which reflected substantial obstacles to regionalism, might not have been an incorrect approach after all, as the otherwise rash move would have certainly strained the weak ASEAN organisational framework. In fact one of the major reasons why ASEAN could have survived such a long period and grown is its reliance on the low-keyed tactic of gradual advance towards regional integration, avoiding drastic action that defies consensus. That is perhaps the 'Southeast Asian way' and might well be the only way to achieve lasting regionalism in a region

characterised by enormous differences in national interests and expectations.

After the sober assessment in 1972, ASEAN did make some effort to tackle such substantive issues as enlarging its administrative machinery, making serious proposals in respect of economic co-operation and developing a unified stand on extra-regional affairs.⁵ The eighth ASEAN Ministerial Conference in Kuala Lumpur in May 1975 marked the end of a series of conferences which put greater emphasis on the symbolic significance of cordiality than on the concrete essentials.⁶ The fall of Indo-China in early 1975 suddenly created a new political equilibrium for the region, bringing to the fore the issue of the very survival of ASEAN. At the same time the new political climate injected the needed urgency and dynamism into the ASEAN organisation and paved the way for the convening of the first ASEAN Summit Meeting in Bali in February 1976. This meeting marked ASEAN's entry into a new era. The constant shuttle of ministers between the capitals and the proliferation of working committees all bear evidence to the fact that ASEAN now shows signs of a life of its own. It remains to be seen, however, whether ASEAN can eventually live up to its rhetoric, what forms of co-operation in concrete terms it will take, or to what extent its economic integration will gravitate. Without doubt the machinery has been refined, the framework strengthened and the momentum created for a more serious approach to regionalism.

In brief, the ASEAN organisation functions by various *ad hoc* and permanent committees, ultimately responsible to the annual meeting of the ministers. To meet the rapid expansion of issues and problems the organisation has developed into a fairly comprehensive network of horizontal and vertical structures. In 1975 a central Secretariat was created and located in Jakarta. The organisational structure of ASEAN is indicated in the Chart.

Development Performance: Problems and Prospects

Recent years have witnessed a heightened concern in the Third World countries over the problem of economic development.