

Asean Economies in Transition

**Edited by
Saw Swee-Hock**



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Preface

This book attempts to present a general survey of the economies of the five countries constituting the Association of Southeast Asian Nations for the benefit of students and others who are interested in acquiring some basic knowledge of the Association as well as the economic structure of these countries. In accepting this undertaking we are guided by our desire to produce a comprehensive study that covers all the major aspects of the Asean economies, but ensuring that the final product would not become too voluminous and unmanageable. The principal topics selected for discussion in this book are agriculture, mineral resources, industrialization, trade, tourism, banking, finance, population, labour force, and regional economic cooperation through Asean. Those who would like to have additional information or more detailed analyses of particular aspects of the subject discussed in each chapter may consult the bibliographic list of publications included at the end of each chapter. The inclusion of chapter bibliographies has also been influenced by our decision to keep the footnotes to the barest minimum in order to control the length of the book and to allow for smoother reading. Since Asean and the economies of the member countries are undergoing rapid transformation, every effort has been made to bring out the book as quickly as possible. But this has turned out to be a more difficult task than expected and revised editions of the book will undoubtedly have to appear regularly in the future.

The authors of the various chapters would like to acknowledge the assistance they received from various institutions and individuals. We would like to thank the National Library of Singapore, the Institute of Southeast Asian Studies Library, the University of Singapore Library, the Nanyang University Library, the National Asean Secretariat in the five countries, and the Asean Secretariat in Jakarta for assisting us to procure the research materials. Our thanks go to Mrs Marian Pan of the Singapore University Press for her editorial assistance in the

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Saw Swee-Hock

2 July 1980



Applied Research Corporation

The Applied Research Corporation (ARC), established in 1973, is a non-profit making public-service company dedicated to provide "focus and direction and to further development of research activities and consultancy services in the fields of economics, management sciences, applied sciences, and engineering for the enhancement of the well-being of Singapore and the surrounding region." The aim is to offer professional expertise to government agencies and private companies to improve their performance and overcome their problems. The long-term objectives of the Corporation are:

- (i) to promote efficiency both in the public and private sectors through modern management and organization techniques;
- (ii) to enhance optimal utilization of the region's manpower and natural resources;
- (iii) to promote local capabilities in industrial research and development so as to absorb the transfer of technology more meaningfully.

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The Asean Region in Perspective

SAW SWEE-HOCK

Geographical Setting

The Association of Southeast Asian Nations (Asean) comprises the five independent Southeast Asian states of Indonesia, Malaysia, the Philippines, Singapore, and Thailand. These countries occupy a land area of some 3.1 million square kilometres, extending from 20° 30' north to 11° south, and from 92° 20' east to 134° 50' east. The Asean region is situated in a strategic position on the principal sea, air, and trade routes between the West and the Far East and Oceania. It is an important economic unit, considering its 247 million people, its industrial raw materials such as tin, petroleum, rubber, palm oil, and timber, and its own potentiality for forging ahead as a significant growth centre in the world.

The total land area of 3,077,083 square kilometres makes the Asean region eight times the size of Japan, twelve-and-a-half times the United Kingdom, five-and-a-half times France, and about one-third of the United States. Within Asean, the land area is distributed rather unevenly among the five countries. By far the largest country is Indonesia which alone occupies 1,904,345 square kilometres or 62 per cent of the total land area. The next largest country, Thailand, is very much smaller in size, taking up not more than 542,373 square kilometres or 18 per cent only. Malaysia and the Philippines are almost equal in size, accounting for 329,749 square kilometres or 11 per cent and 300,000 square kilometres or 10 per cent respectively. The 616 square kilometres occupied by Singapore is comparatively

insignificant, contributing less than 0.1 per cent of the total land area in the Asean region.

The physical topography of the Asean region is essentially of lowlying plains with meandering rivers, undulating hills, and low plateaux, interspersed with occasional mountains not higher than 8,000 feet in most cases. The outstanding feature of the region is the profusion of island states. The Philippines is made up of no less than 7,100 islands, with the two main islands of Luzon and Mindanao taking up 67 per cent of the country's land area. In Indonesia there are some 3,000 islands, with Kalimantan, Sumatra, and Java accounting for 74 per cent of the area. Even Singapore has numerous tiny islands in addition to the main island where the majority of the people live. Furthermore, Malaysia is split into two distinct parts by the South China Sea, with Sabah and Sarawak situated in the huge island of Borneo and Peninsular Malaysia itself almost encompassed by the sea. The only exception is Thailand which shares common land boundaries with four neighbours in mainland Southeast Asia but which has a long coastline along the Gulf of Siam and a shorter one along the Andaman Sea. Contact among the Asean peoples in such fragmented land masses is obviously heavily dependent on sea and air routes.

Situated in the equatorial belt, the Asean region has a tropical climate with a uniformly high temperature, high humidity, ample sunshine, and abundant rainfall throughout the year. Except for the isolated mountainous parts where the temperature is perceptibly cooler, the annual average temperature prevailing in these countries is remarkably close to 27° centigrade. The annual variation in temperature is not very significant, nor is the daily variation in most localities. The annual average rainfall is very high, amounting to as much as 60 inches. Over the year there is some variation in rainfall, the rainy seasons coinciding with the southwest and northeast monsoons. To some extent, these monsoons also determine the amount of rain falling at different areas during a specific period.

Few aspects of the geography of the Asean region are more striking than the richness of the natural vegetation which

thrives well in the hot-humid climate. The vegetation exhibits an abundance and diversity of forms which are without parallel anywhere else in the world. Most areas are covered with dense evergreen forest, with gigantic soaring trees and a profusion of shrubs and smaller plants. From this flora comes the bamboo, rattan, teak, and other valuable hardwood. The tropical rain-forest gives way to the secondary forest with shorter trees and far more tangled undergrowth. Towards the coastline the mangroves thrive near the mouths of the numerous rivers and along the more sheltered muddy shorelines. A wide variety of fauna — insects, reptiles, birds, and animals — live in the luxuriant forests. The original vegetation still covers the whole of the Asean region, except in areas which have been permanently cleared for human settlement, logging, and agriculture.

Historical and Political Background

The countries of Southeast Asia, of which Asean is a part, share quite a number of common historical experiences — beginning with the evolution of a fairly common pattern of material culture based on wet rice cultivation, the domestication of ox and buffalo, the use of metals, and skill in navigation. On the spiritual level the common characteristics were animistic beliefs or nature and ancestor worship, the practice of placing shrines in elevated places, and belief in a cosmological dualism between mountain and sea and a numerology associated with magic. These cultural elements were modified and influenced by local conditions and by outside influences emanating mainly from China and India. Contact with these two ancient civilizations through traders, travellers, and emissaries since the dawn of history has left imprints on the way of life and thinking of the people, on their religion, language and literature, music and art, and political and economic theory and practice.

Innumerable kingdoms and small states once existed in what is now the Asean region. The first important state to merge as a dominant force in the region was Sri Vijaya in southeast Sumatra. In the seventh century, Sri Vijaya became the chief

commercial centre of Southeast Asia, trading with China, India, and the Middle East. The rulers gained control of the coastal areas of Sumatra and the Malay peninsula and dominated the Malacca Strait, the Sunda Strait, and the neighbouring seas. Sri Vijaya, through links with India, became a Mahayana Buddhist country, and it was from Sri Vijaya that Buddhism spread to Java. In the late seventh and early eighth centuries, Mataram in central Java emerged as a state strong enough to challenge Sri Vijaya. The rulers at first worshipped Shiva but later adopted Mahayana Buddhism and built great Buddhist monuments, the most well known of which is the vast temple at Borobodur, built in the eighth century. Sri Vijaya gradually declined in power; though, according to Chinese sources, it was still exacting tribute from most of the Malay peninsula and southern Thailand as late as the thirteenth century.

The next great kingdom to emerge was Majapahit in eastern Java. The empire of Majapahit extended its authority in the early fourteenth century over much of the archipelago and the Malay peninsula, and it became powerful and prosperous, maintaining friendly relations with mainland Southeast Asian states and with China. Trade flourished but the empire of Majapahit did not last very long. It began to decline in the fifteenth century, owing to rivalries for the throne, the rise of other kingdoms, and the spread of Islam which undermined the power of the Majapahit rulers who were Buddhists or Hindus.

Islam was first brought to the archipelago by Gujarati merchants from India, who settled in the ports and intermarried with the local people. Conversion occurred rapidly, spreading from Sumatra to the Malay peninsula. The rise of Islam was facilitated by the emergence of a new state, Malacca, on the west coast of the Malay peninsula, founded by Parameswara in 1402. Malacca grew to become an important commercial centre strong enough to compel all shipping passing through the Straits of Malacca to call at the port. The rulers of Malacca eventually became strong adherents of Islam, and the rise of Malacca brought about further extension of Islamic influence throughout the

Malay peninsula and the archipelago through political and commercial contacts. But not all of island Southeast Asia adopted Islam. Bali remains Hindu to this day, while the more inaccessible parts of Surnatra and Borneo were untouched, as was the major part of the Philippines. As for mainland Southeast Asia, only small Muslim minorities exist, notably in southern Thailand and western Burma.

Numerous kingdoms rose and fell in mainland Southeast Asia, and we shall concern ourselves only with Thailand which emerged as a result of the southward migration of the Thailand people. Several small Thai Buddhist states were set up in the twelfth and thirteenth centuries, but it was not until the founding of Ayuthia in the middle of the fourteenth century that Thai principalities were in control of the territory now known as Thailand. The following centuries were marked by constant struggles between the Thais and neighbouring kingdoms.

For the greater part of its early history, the entire Asean region was marked by incessant warfare, and the region was fragmented into countless small principalities. The present Asean states, except Thailand, came into being through Western colonialism. The extension of Western political and commercial dominance over all Asean states including Thailand, which was economically subjugated to Western interests, is another important common experience shared by the Asean states.

The Western nations were lured to this region by the prospects for material gain through trade, and spiritual gain through converting the people to Christianity. The first Europeans to arrive in significant numbers were the Portuguese who captured Malacca in 1511. To increase their control over the valuable spice trade they established a fairly effective control over the Straits of Malacca and set up forts in the Moluccas, known also as the Spice Islands. Next came the Spaniards who approached Southeast Asia from the east, following the trail blazed by Magellan. A struggle for control over the Moluccas ended in defeat for the Spaniards who then turned to the islands which they named the Philippines Islands in honour of Philip

of Spain. The first Spanish settlement of a permanent nature was established in 1565 on Cebu Island, and in 1571 Manila was founded. They converted the majority of the population in the areas they controlled to the Roman Catholic faith, and introduced new crops and trading systems as well as the Spanish way of life and thought.

The next Europeans to arrive were the Dutch who established a trading post at Bantam in east Java in 1600 and soon drove the Portuguese out of the Moluccas. In 1619 they set up their headquarters at Djakarta which they named "Batavia". In 1614 the Dutch captured Malacca from the Portuguese and were thus in a position to control both the Malacca Strait and the Sunda Strait. The British came close on the heels of the Dutch and set up trading posts in Bantam in 1602 and in other parts of Southeast Asia. In the ensuing struggle, the Dutch were successful in forcing the British out. The Dutch, by interfering in the struggles for power between rival kingdoms or rival claimants to the throne and by the use of force and duplicity, succeeded by the end of the seventeenth century in becoming the dominant power in the archipelago.

In the early part of the nineteenth century, the British occupied most of the Dutch positions as a result of a war in Europe. At the end of the war, the British withdrew but not without realizing even more keenly the need for a base to tap the regions' vast potential for intra- and extra-regional trade. It was with the aim of setting up such a base for British trade that Singapore was founded by Raffles in 1819. In 1824 the Anglo-Dutch Treaty divided the spheres of influence of the two powers along a line separating the Malay peninsula from Sumatra and Java. The British sphere lay to the north of the line, while the Dutch sphere lay to the south. In the course of the nineteenth century, both powers came to dominate their spheres more directly and to extend their sway politically as well as commercially. The several administrative units north of the line came to be known collectively as British Malaya, and those south of the line as the Netherlands East Indies.

In the Philippines the oppressive and repressive aspects of Spanish rule led to revolts which became increasingly frequent in the late nineteenth century, culminating in an organized struggle for independence in 1896. In 1898 the United States declared war on Spain as a result of developments in the Caribbean area, occupied Manila, and decided to keep the Philippines for economic and prestige reasons. By a treaty signed in 1898, Spain ceded the Philippines to the United States. Though the nationalists turned from fighting the Spaniards to fighting the Americans, they were unable to drive out the Americans, who, however, began to accede to Filipino demands for self-government from 1907 onwards. Gradually the franchise was enlarged, and Filipinos were given greater say in running the country. In 1934 a law was passed by the U.S. Congress by which the country would have a wide measure of self-government for ten years and after that should be independent. The war with the Japanese delayed the date to July 1946 when the Philippines became an independent Republic with Manuel Roxas as the first President.

Yet another Western nation to appear in force on the South-east Asian scene was France. The French concentrated their attention on the mainland states, including Ayuthia, where their attempt at domination in the later part of the seventeenth century failed. In 1767 Ayuthia, however, fell to the Burmese after a series of wars between the Thais and the Burmese. The Thais then retreated south and had their capital at Thonburi for a time, but soon shifted the capital to its present site in Bangkok. The Chakri Dynasty, which still rules today, was established in 1782 by a Thai general who became king, Phya Chakri, Rama I. A succession of able monarchs followed, and they came to the realization that Western powers could not be resisted by force and that at times concessions had to be made. As a result, though Thailand lost territory to both the French and the British, the losses were only outlying areas, while the home of the Thai people in the Menam Chao Phraya basin remained intact and independent. Of the several treaties Thailand signed with Westerners in the nineteenth century,

the 1855 Bowring treaty was the most significant as it opened up the country to British trade and enterprise. Similar treaties with most Western countries soon followed and trade grew by leaps and bounds. Though politically independent, Thailand, like the other Asean countries, became a supplier of raw materials and foodstuffs to the Western economies and served as a market for Western manufactured goods.

Still another common historical experience was the Japanese victory over the imperialist powers and the occupation of the Asean countries except Thailand which took the side of the Japanese against the Allies. In the other countries, some nationalist leaders also allied themselves with the Japanese who, though eventually defeated, had struck a mortal blow at the position of the colonial powers. The cry for independence, for freedom from colonial rule, grew till it could no longer be ignored, and eventually the Asean countries one after another attained their independence. In Indonesia nationalist leaders proclaimed independence in 1945, but the Dutch who returned to Indonesia in 1946 sought to retain some measure of control. Fighting broke out and in 1949, after intervention by the United Nations, Indonesia at last attained independence with Sukarno as the first President. Indonesia was ruled by Sukarno until 1965 when an abortive Communist coup, in which Sukarno was implicated, led to a counter coup that enabled the military leaders to smash the local Communist party and to remove most of the President's power. A military government under Suharto took control. General elections were held in 1971, and the result was a landslide victory for the government-backed Golkar* which comprised socio-political elements, technocrats, and members of the armed forces; and Suharto was confirmed as the President. In the general elections of 1977, the Golkar led by President Suharto emerged victorious again.

In Malaya the British wanted to amalgamate and rationalize the several administrative units. Before the war there were the Straits Settlements, comprising Singapore, Malacca, and

*Golongan Karya - functional groups.

Penang; the Federated Malay States; and the five Unfederated Malay States. All these, except Singapore which was to be a separate colony, were to be joined into one administrative unit called the Malayan Union. But because of Malay opposition, the Malayan Union gave way to the Federation of Malaya which was set up in 1948. In 1955 the first national elections were won by the Alliance Party under the leadership of Tunku Abdul Rahman, and in 1957 the Federation became independent with the Tunku as the first Prime Minister. In Malaysia parliamentary rule was suspended in 1969 following racial riots in Peninsular Malaysia, and the country was run by the National Operations Council until 1971 when there was a return to parliamentary rule. In 1976 Dato Hussein Onn succeeded Tun Abdul Razak to become the third Prime Minister of Malaysia, and continued to be so after the victory of his National Front in the July 1978 general elections.

Singapore achieved self-government in domestic affairs in 1959 when the People's Action Party won the elections in that year. Lee Kuan Yew became the first Prime Minister and has retained the post ever since. In 1963 Singapore, Sarawak, and Sabah (North Borneo) gained complete independence from the British by joining the Federation of Malaya to form the Federation of Malaysia. But in 1965 Singapore left the Federation to become an independent sovereign republic. The People's Action Party has won all the general elections held since 1959 and has remained in government.

Thailand has had a series of governments since 1932 when the bloodless revolution brought in a constitutional monarchy. Power has been exercised mainly by military leaders who have been in control except for some short periods when some form of parliamentary democracy was exercised through general elections. The latest of these periods was terminated in 1977 when Kriangsak Chomanan took over power from the shaky coalition government of Thanin Kraivichien and decided to rule the country with the aid of the military. In early 1979, another general election was held to fill the elected seats in the national assembly which is also composed of nominated assemblymen.

Kriangsak became the Prime Minister under the new constitution.

The Philippines became independent in 1946, and since then elections have been held at regular intervals. In 1965 Ferdinand Marcos won the elections and repeated the performance in 1969. In 1972 martial law was introduced by Marcos amidst increasing lawlessness and disorder, and has remained in force ever since, though a limited form of general election was held in 1978. The rulers of both Thailand and the Philippines, however, have indicated that parliamentary democracy would be restored as soon as threats to political stability posed by Communist subversion and secessionist forces have been reduced to an acceptable level.

Population Trends

The 247 million people populating the Asean region are very heterogeneous in race and religion. By far the largest community is that of the 147 million ethnic Malays who live in the vast expanse of Indonesia, Malaysia, and to a lesser extent in southern Thailand, southern Philippines, and Singapore. Most of these people are ardent followers of the Islamic faith, while a minority are Hindus found primarily in Bali and Christians scattered all over the Indonesian archipelago. Of somewhat similar physical characteristics but professing the Christian religion are the inhabitants of the Philippines. Out of a total of some 46 million in this country, no less than 85 per cent are Roman Catholics and 3 per cent are Protestants. The Thais are a fairly distinct group, with physical appearance similar to that of the Chinese; Buddhism is the universal religion of these 45 million Thais.

Among the newer immigrant communities who came in the past from outside the region are the Chinese, numbering some 3.8 million in Malaysia and 1.8 million in Singapore, the two countries where they are classified separately in the population census. Precise figures for this community in the other three Asean countries are hard to come by, but estimates put the number at around 4 million in Indonesia, 3 million in Thailand,

and about 1 million in the Philippines. The second largest group comprises those who migrated from the Indian sub-continent, namely, the Indians, Pakistanis, Bangladeshis, and Sri Lankans, found mainly in Malaysia and Singapore. Much smaller minority groups are the Eurasians, Jews, and Arabs, apart from the transient business community as represented by the Japanese, Americans, and Europeans of all nationalities.

The diversity of the Asean population assumes much greater proportion and complexity if one looks at the indigenous people of each country from the ethnographic and linguistic point of view. In the Philippines alone, there are known to be some 55 different ethnographic groups speaking a total of more than 90 languages and dialects, with the Tagalogs and the Cebuanos forming the two main groups. A lesser number of different ethnographic groups are found in Indonesia where the Javanese constitute the predominant group. In contrast, Thailand has an unusual degree of ethnographic homogeneity, with only a small number of minority groups such as the Shans, Karens, Khmers, and Annamese. Even so, most of these smaller groups do not differ much from the Thais, both in terms of ethnicity and the Buddhist religion. In Malaysia the Malays are also homogeneous, with a common language and the Muslim religion, though they may be subdivided into the indigenous Malays and the newer immigrant Indonesians. In the eastern states of Sabah and Sarawak, there are sizeable indigenous non-Malay communities such as the Dayaks, Melanaus, Dusuns, Bajaus, and Muruts. Compared to the countries of the European Economic Community (EEC), there is undoubtedly a greater diversity of people in the Asean region in terms of ethnic group, language, religion, and hence culture.

The combined population of the five Asean countries in mid-1978 amounted to 246.7 million, which ranks as the third largest next to China and India. It is slightly larger than the population of the United States, and more than twice the 114.8 million of Japan. Within the region itself, Indonesia is by far the largest, with a population of no less than 140.2 million, which is already larger than the population of Japan. At the