Teaching About Southeast Asian Economics

By R. L. Curry, Jr.

The rich cultural and social milieu of Southeast Asia provides a superb background within which to study the region's national economies and the way that they are linked as an economic region, particularly via participation in the Association of Southeast Asian Nations (ASEAN). The intellectual richness of the region's diversity is augmented by the wide variety of national economic structures that add to the regional mosaic. As a result, studying and teaching about Southeast Asia is truly an enjoyable intellectual adventure that needs to begin with a search for a useful geographic identification of "Southeast Asia." The ten members of ASEAN combine to meet this need by providing a useful regional identity, since they form a reasonably contiguous geographic area with a combined population of approximately 480 million people, or about one out of every 12.5 people living on the planet.

The above photo is from the the Web site of ASEAN (www.aseansec.org).

Bangkok Accord

Smiles all around as the Foreign Ministers of Indonesia, Thailand and Malaysia celebrate the signing of the Bangkok Accord in 1966 ending the confrontation between Indonesia and Malaysia.

ASEAN in Action

The Association was created via the Bangkok Declaration of 1967 when the five original member countries jointly accepted principles of agreement and practice. The five were Singapore, now the newest member of the developed, industrialized, market economy country group, and Thailand and Malaysia, each currently considered a newly industrializing, resource-rich, middle-income developing country. The Philippines and Indonesia were also among the original five, and each is considered a resource-rich, middle-income developing country. The five were joined in 1985 by high-income, oil-rich Brunei. During the mid to late 1990s, the Association added four more members: Vietnam, a large, resource endowed, lower-income, less developed country, followed by Laos and Myanmar (Burma), two small, resource-poor, lower-income, less developed nations, followed by Cambodia, another small, poor and underdeveloped country.

The Association operates on the consensus principle and, as a consequence, members agree to abide by all aspects of the ASEAN agreement when it comes to intra-regional trade, investment and intellectual property rights transfers, and conflict resolution mechanisms. It isn't equally easy for all members to adhere to the agreement because of the asymmetry which has resulted from adding new members. The expanded membership reflects wide variations in levels of per capita income as well as national economic development and economic structure. This suggests that teaching and learning about Southeast Asian economics must take a distinctly political economy focus because members must use political processes to put economic mechanisms into place.

The Association has created the ASEAN Regional Forum to deal with potential and real disputes over political or strategic issues. The Forum is a relatively informal agreement whereby ASEAN, its dialogue partners and other countries meet periodically in order to reduce tensions arising from issues ranging from control of the Spratley Islands to military buildups in the South China Sea.

A good topic on which to begin employing this focus is how ASEAN operates as a consensus-driven institution in the face of an economically diverse membership. Its Secretariat is located in Jakarta, Indonesia and it oversees a number of mechanisms. The key one is the ASEAN Free Trade Area (AFTA) and the Common Effective Preferential Tariff (CEPT) scheme that governs internal tariff reduction and elimination among members via a combination of fast-track and normal-track schedules. The scheme will lower tariffs on most items (others are placed on a temporary exclusion list) to between 0 and 5 percent by 2003 for the six older member countries, and the average tariff for intra-ASEAN trade declined to 4.59 percent in 1999, falling to 2.63 percent in 2002. By this year, 60 percent of tariffs will be eliminated, but it will not be until 2015 that all tariffs will be cut to 0 percent for the six older members and by 2018 for the four newer member nations. There is an escape provision aimed at lessening the severity of a serious negative impact that would result from a strict adherence to fast- and normal-track requirements to reduce and eliminate tariffs on schedule. Under these circumstances, seriously affected items are placed on the temporary exclusion list, while the aim remains to meet all target year goals.

The ASEAN Secretariat
The impressive facade of the ASEAN Secretariat building in Jakarta, built on land donated by the Indonesian government.
(From the Web site of ASEAN.)

ASEAN has various mechanisms to encourage investment in the region: older ones are the ASEAN Industrial Projects (AIP) and ASEAN Industrial Joint Ventures; the newer ones are the ASEAN Industrial Complementation (AICO) and ASEAN Investment Area (AIA) schemes. While these investment generation schemes have met with varying degrees of success, it should be noted that the vast majority of private sector investment takes place outside of the ASEAN mechanisms. Foreign investors are attracted to the region because of the generally healthy investment climates that are pervasive within member countries. Importantly, in addition to leading directly to investment generation, ASEAN investment schemes offer a signal to potential investors that the region's investment climate is sound.

The Association seeks to prevent or resolve trade, investment and intellectual property disputes that arise periodically between members and external partners via an ASEAN Dialogue Partnership System (ADPS) and a Post-Ministerial Conference (PMC) mechanism. Attracting direct foreign investment, financial capital and industrial technology and know-how are important to ASEAN countries, and the ADPS and PMC mechanisms are useful in preventing obstacles to the free flow of these resources. In addition, they are also useful in negotiating and maintaining access to "outside" markets of export destination for producers domiciled in ASEAN countries.

Indeed, maintaining access to markets outside the region is important to the membership because even with the AFTA/CEPT, exports to external markets account for between 75 and 80 percent of ASEAN's annual exports. Formal and continual contacts between ASEAN and its dialogue partners (e.g., the main sources of resources and export markets) require constant dialogues with partners in North America, the European Union, Australia and New Zealand, Korea, mainland China, Japan, India, Russia and South Korea. Dialogues

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take place via standing committees as supplemented by the PMCs. The latter are high-level meetings that occur regularly between ASEAN members and partner countries.

The Association has expanded the spirit of "negotiation over conflict" beyond strictly economic issues. The Association has created the ASEAN Regional Forum to deal with potential and real disputes over political or strategic issues. The Forum is a relatively informal agreement whereby ASEAN, its dialogue partners and other countries meet periodically in order to reduce tensions arising from issues ranging from control of the Spratley Islands to military buildups in the South China Sea. It should also be noted that the ASEAN group participates actively in extra-regional institutions such as the Asia-Pacific Economic Cooperation (APEC) and Pacific Economic Cooperation Council (PECC). In fact, each of these organizations has its secretariat domiciled in Singapore where, by the way, the first Ministerial Meeting of the World Trade Organization (WTO) took place.

While it is important that teaching and learning about Southeast Asian economics focus on the above institutions, particularly ASEAN, it is equally important to understand the major issues that affect Southeast Asian national economies and the people of the region. Two very important issues have to do with the recent financial crisis and preventing future episodes, as well as understanding the social impact of the crisis. Other issues range from pursuing environmentally sustainable economic growth and development, narrowing income inequities, reducing widespread poverty, and closing the gap between low-income countries and higher-income countries, particularly when it comes to former centrally planned economies that are in the process of transition toward market economic systems.

The Asian financial crisis that began in 1997 did not become a full-scale economic collapse, even in the most seriously affected Southeast Asian countries—Indonesia, Malaysia and Thailand. The crisis interrupted a fifteen-year period of extremely buoyant growth in gross domestic products that were recorded by these three Southeast Asian nations and others in the region with the dramatic exceptions of Burma, Laos and Cambodia. While the crisis posed a serious challenge to the resumption of growth, it did not degenerate into even greater economic downturns for several reasons. First, productive capacities were enhanced during the period of continual economic growth that preceded the 1997–99 financial crisis; second, domestic policy responses and international assistance permitted affected countries to resume positive growth within a relatively short period of time.

The financial crisis was triggered in July of 1997 when the government of Thailand allowed the baht to find its "market value," thereby abandoning the pegged rate of 25:l vis-à-vis the U.S. dollar. The government recognized that the baht was overvalued, and it expected the rate to change to about 32:1. However, by January of 1998 it had devalued to 55:1, but then it began to regain strength to the 39:1 rate that existed at the end of November 1999. The government undertook the action because the overvalued baht contributed to Thailand's rapidly mounting annual trade deficit. The Asia Foundation reported that during the decade preceding the crisis, Thailand's annual current account deficits were being financed by progressively greater reliance on short-term borrowing, including bank loans from countries such as Japan. As Thailand's current account deficits grew, the government also began to use

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some of its international reserves to finance the country's persistent and growing annual trade deficits, and this caused Thailand's foreign exchange holdings to dwindle.

The imports that were being financed by foreign borrowing and using currency reserves were being consumed in high proportions, and this came at the expense of not using them optimally in terms of investing in export expansion and import-substitution ventures. In addition, some of the investment activity that was taking place was extremely reckless, including speculative ventures in real property "development." This resulted in an excess supply of residential and commercial property. Without sufficient lease or rental receipts and/or sales revenues, more and more of the reckless and speculative ventures resulted in nonperforming loans and, as a consequence, foreign investors began to retreat from Thailand. The baht was therefore put under enormous pressure, and so, too, were the currencies of other countries, particularly Indonesia and Malaysia, for much the same set of reasons.

The crisis soon "crept" out of Southeast Asia and reached Korea, Russia, Brazil and other countries, and the disorderly and chaotic retreat by short-term investors who had fled Thailand began to be emulated in these countries. The crisis that emerged in Thailand and spread to Malaysia, Indonesia and elsewhere occurred because the affected countries shared a structural environment, the elements of which were described by APEC. It called attention to these pervasive structural features: a mismatch between short-term debt and foreign reserves, a large and increasing current account deficit, increased consumption rather than investment, government budget deficits, dependence on foreign capital inflows, overvalued exchange rates, and excessive monetary growth.

Keeping in mind that sustained post-crisis recovery would not be easy, the phenomenon described above would have to be confronted. In addition, external assistance would be required in the form of financial support from bilateral donors. The International Monetary Fund allocated support *under strict conditionality* that mandated a post-crisis characterized by domestic "accountability and transparency." External support combined with internal reform in ways that began to produce a reversal by 1999, but while progress began to take place, it should be noted that much remains to be done by way of political reform not only in Thailand, but also in Malaysia and particularly in Indonesia. Table 1 contains data on the recovery in the three most seriously affected Southeast Asian countries.

Table 1

REAL GDP GROWTH (PERCENT) IN THE MOST SERIOUSLY AFFECTED COUNTRIES

	1995	**1996**	**1997**	**1998**	**1999***
Thailand	8.3	6.4	0.1	3.0	1.8
Indonesia	7.8	8.0	4.6	-0.1	2.6
Malaysia	8.0	8.6	7.4	3.4	5.1

Source: International Labor Office. *The Social Impact of the Asian Financial Crisis*. Geneva: ILO, 1999.
*Estimated

Social Impacts of the Crisis

The impact of the financial crisis that hit these and other Southeast Asian economies had a devastating effect on the lives of people who experienced sudden reversals in their economic fortunes. Their material lives improved progressively during the pre-1997 period. The crisis caused the rate of job creation to slow and the unemployment rate to increase as job creation failed to match labor force growth, and people were forced to experience retrenchment as their real income declined. The reversals took place throughout the region, including economies with minimal social safety nets, but excluding economically well-managed Singapore. Even in those countries that had institutional networks in place, the capacity of their governments to finance safety network programs was substantially diminished by downturns in their ability to generate public revenues that were required to finance needed services.

Within each Southeast Asian country, the impact was not felt evenly. The crisis had a particularly adverse impact on the lives of women who faced reduced formal employment opportunities and who also had to suffer residual difficulties due to family responsibilities associated with nurturing children. Migrant laborers faced a particular problem as retrenchment caused some governments to replace them with unemployed indigenous workers. Older workers who were vulnerable to economic change tended to find it difficult to maintain their jobs during the crisis. While no completely accurate account of the legacy of the crisis is likely to be forthcoming, the APEC and other institutional and individual observers have concluded the following: first, while not a general effect, many have had difficulty in regaining employment due to rapid technological change, and a large number of these unemployed workers lack the ability to cope with the social consequences of prolonged unemployment. Second, many lives were temporarily interrupted, including those of people who were more able to weather the economic storm and who had sound career prospects. For example, some tertiary and even secondary students were forced to drop out of formal schooling and training in order to take relatively low-paying jobs, at least temporarily.

Table 2

Measures of Poverty in Southeast Asia: 1995

Country	HDI	HDI Rank	HPI
Singapore	.896	28	6.5
Brunei	.889	35	0.2
Thailand	.838	59	11.9
Malaysia	.834	60	NA
Indonesia	.679	96	20.2
Philippines	.677	98	17.7
Vietnam	.560	122	26.1
Myanmar	.481	131	27.5
Laos	.465	136	39.4
Cambodia	.422	140	39.9

Source: United Nations Development Program. *Human Development Report 1998*. New York and London: Oxford University Press, 1998: pp. 128–130 and 146–147. Also see World Bank. *World Development Report 1998*. New York and London: Oxford University Press, 1998. Note that these are annual publications.

While the crisis hit many people hard and recovery is important to them, it is important to note that the pre-crisis boom did not reach everyone. Consequently, the challenges facing Southeast Asian countries are not only related to recovery, but they are pertinent to dealing with inequality and poverty. While the empirical data in Table 1 show the magnitude of the downturn and the start of the recovery, they do not reveal the personal stories of the persistent impact that poverty has *on the lives of very real human beings*.

Table 2 attempts to fill this gap by providing data that reveal the magnitude of poverty experienced by the region's people. The table provides data on human development and poverty throughout the region. The United Nations Economic Development Program's Human Development Index (HDI) measures the absence of deprivation within a country. A complete absence of deprivation would yield an HDI value of 1.00, and a relatively high index value means that more human needs are met and therefore fewer people are forced to endure material deprivation. A complementary measure is the

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World Bank's Human Poverty Index (HPI) that measures the percentage of a country's population who live in circumstances in which they find it absolutely impossible to acquire the resources they need to meet their basic needs on a sustainable basis. However, the measure does not account for the economically marginal families living perilously close to absolute poverty. Available data for the year 1995 show the degree to which Southeast Asian countries were able to confront poverty prior to the onset of the financial crisis. The data clearly show that any "economic miracle" that might have occurred in Asia failed to reach vast numbers of human beings who lived throughout Southeast Asia.

In their effort to restore growth, government decision makers tended to do things that exacerbated the environmental problems that began to plague the region during the growth period. The increase in urban population that took place during the growth period made more people vulnerable to growing hazardous waste emissions caused by both emerging production processes and consumption patterns. The prospects for sustainable long-term economic growth and development were dampened when forest and marine resources were overexploited. Environmentalists argue that the crisis worsened the prospects for sustainable development because it caused the most seriously affected countries' governments and people to overexploit the natural environment in order to meet needs that could not be met otherwise. This happened most acutely in Indonesia, but other countries such as Malaysia, the Philippines, and Thailand also had been making sustainable development problematic throughout the growth period; the crisis only worsened matters.

A Final Observation

Studying about Southeast Asian economics means confronting a variety of issues (including those discussed above), and it must be noted that often there is no general agreement on all aspects of the issues. In order to confront this fact of intellectual life, and prior to teaching about the region's economic life, instructors need to find the most useful sources of information. An acknowledged reliable source of ideas, data and information about the economic, social, political and strategic aspects of these and other issues is the Institute of Southeast Asian Studies (ISEAS). The Institute publishes the *ASEAN Economic Bulletin*, *Southeast Asian Affairs*, *Regional Outlook,* and an array of high quality books and monographs. Other useful and informative sources include the ASEAN Secretariat, publisher of *The AFTA Reader* and other annual and periodic reports, and both the Asia Foundation and the Asian Development Bank. In addition to consulting these sources for pertinent articles, the reader is advised to consult the following set of bibliographic references that focus on the matters briefly discussed herein and on other important issues. ■

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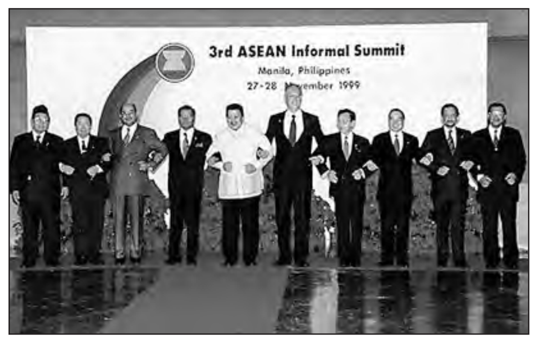
First ASEAN Summit, Bali
The flags of the five ASEAN nations waving gaily outside Bali International Airport to mark the arrival of the ASEAN heads of government for their first summit meeting in 1976.
(From the Web site of ASEAN.)



Third Informal Summit, 1999
The leaders of the 10 member countries of ASEAN link arms during the opening Sunday morning of the 3rd ASEAN Informal Summit at the Philippine International Convention Center, November 28, 1999.
From left to right: President Abdurrahman Wahid of Indonesia; Prime Minister Sisavath Keobouphanh of the Lao People's Democratic Republic; Datuk Seri Syed Hamid Albar, special representative of the Prime Minister of Malaysia; Senior General Than Shwe, Chairman, State Peace and Development Council and Prime Minister of the Union of Myanmar; Philippine President Joseph Ejercito Estrada; Prime Minister Goh Chok Tong of Singapore; Prime Minister Chuan Leekpai of the Kingdom of Thailand; Prime Minister Phan Van Khai of the Socialist Republic of Vietnam; His Majesty Sultan Haji Hassanal Bolkiah, Sultan and Yang Di-Pertuan of Brunei Darussalam; and Prime Minister Samdech Hun Sen of Cambodia.
(From the Web site of ASEAN.)