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The Asean Economies:

A comparative study of development

WHILE there are one or two comparative studies (e.g. Asean Economies in Perspective by John Wong) which suggest what lessons Asean countries may draw from each other's development experience, there has been little effort to set Asean developments in the broader perspective of the changes taking place in comparable countries outside the region. This is a gap in the growing body of Asean literature which merits being filled, as Parvez Hasan sought to do in his World Bank staff paper on the East Asian economies.

A further effort is worth making for two reasons. One is that Asean's aggregate performance marks it out as one of the fastest growing regions of the world. This is why the track record already attracts wide notice, and a comparative evaluation may evoke even wider interest. Another is that Asean brings together a variety of countries -- a mini state like Singapore, a major oil exporter like Indonesia and a predominantly agricultural one like Thailand. This permits a study of Asean to cover a broad spectrum of development problems, and to compare the solutions -- successful or otherwise -- adopted by these countries with those picked for themselves by comparable countries elsewhere.

A large volume of comparative literature on less developed countries (LDCs) is now available, part of it coming from the World Bank, seeking to pinpoint the reasons underlying success or failure in individual sectors like industry. A discussion of the Asean experience in the general LDC context should, therefore, be a manageable undertaking in terms of the time and effort required for it. The conclusions it yields should be of interest not only to students of Asean but also of development in general.

There is an added reason for doing a study of Asean from this viewpoint. A recent UNCTAD document has described Asean as the second most successful regional grouping of LDCs, judged by the yardstick of the growth of mutual trade among the five during the 1970s. Though this growth has taken place almost independently of the efforts made since 1977 to promote greater trade within the group, it will be instructive to examine both the negative and positive factors influencing intra-Asean trade flows. This will be of particular interest to students (and promoters) of other groupings.

The study I propose looks at Asean from the viewpoint of an outsider. Instead of reviewing the Asean record in each sector on a country-by-country basis, the approach adopted in one notable instance, I will try to show how the strategy of, say, development in Indonesia differs from, or corresponds with, that of another oil-rich but populous country like Nigeria. To cite another example, I should like to discuss how Singapore's industrial strategy compares with that of South Korea or Taiwan. This kind of comparison, over as many fields and with as many countries as possible, may tell us something new and interesting about both Asean's strengths and weakness.

The comparisons cannot be too precise. Except for broad measures, such as those indicating growth rates by sector, data do not always correspond in terms of coverage (because of variations in definitions employed) or of time span. To cite just one example, the proportion of the population below the poverty line has to be cited for different years for different Asean countries -- depending on the year in which a relevant survey was undertaken. It has also to be noted that the definition of poverty differs from country to country: relatively affluent Malaysia sets the level much higher than, say, the Philippines.

Again, there is quite a time lag before data compiled on a comparable basis becomes available from authoritative international organisations. For example, the latest yearbook on Government Financial Statistics from the International Monetary Fund gives figures for most LDCs for 1980, but only for 1979 for Malaysia. This handicap need not detract from the usefulness of the study because the object will be to focus on differences in trends rather than on point-to-point comparisons.

It follows, therefore, that comparisons have to be impressionistic -- a limitation that must be clearly stated at the outset to warn the reader against such mistaken assumptions that average living conditions in Malaysia and South Korea must be broadly similar because they have roughly the same per capita incomes. However, it is pertinent to enquire whether similar per capita incomes have resulted in about the same GNP/domestic savings ratio.

The fact that the South Korean ratio is higher does tell us something useful about the way fiscal policy has been fashioned to discourage domestic demand, this being one explanation for the export surpluses the economy has been able to generate. (A case in point is that South Korea was holding back on colour TV programmes even while it was flogging colour TV sets on the US and other markets). Conversely, the ratio tells us that Asean economies are more consumption oriented.

Comparisons of, say, tax treatment of rice exports in Thailand and Pakistan may not resolve the question whether the Thai levies on rice should be reduced in order to provide growers the incentives to improve the low average yield per hectare. Each such issue has many ramifications peculiar to a country which a comparative study can hardly cover. But the figures from Pakistan may still provide an understanding helpful to students of the problem in Thailand.

In the situation presently facing the LDCs, the quest for economic efficiency has acquired greater urgency than before. To the extent a comparative study of this kind helps to focus attention on the alternatives open to Asean policy-makers, it may make a useful contribution to the debates now taking place in these countries on the course that development policies should take to cope with the challenges of this troubled decade.

The study is intended to be based on desk research, drawing upon the many country and comparative studies that alredy exist. It follows therefore that the study is unlikely to come up with anything that a scholar has not already noted from the particular perspective adopted in this work. But I believe there is merit in attempting to draw the many different strands together. Given my background as a journalist, this is a task which is within my field of competence. This would not, however, be the case with a more ambitious endeavour based on original, rather than secondary, research.

The study is intended to be of interest to the kind of reader who is willing to spare the time and effort to read an article of several thousand words in, say, the New York Times weekly review or the briefing piece in The Economist, but would not normally make the effort to turn to academic journals.

The location where work on the study is undertaken must obviously be one where material for desk research is most readily available. From this viewpoint, the World Bank is ideal provided of course it allows access not only to its library but also to its non-sensitive documents. In any case, it brings together -- figuratively under one room -- many country and subject specialists from whose insights the study will benefit. No other institution offers anything like the same range and depth of expertise in comparitive development studies.

In the following paragraphs, I outline some of the main issues of which a comparative examination will be feasible as well as instructive. This, like the rest of this note, is a preliminary and tentative listing.

Agriculture

In all the Asean agricultural countries, the contribution of the farm sector to national income is declining -- as it is in many LDCs. This is a sine qua non of modernisation and should therefore be welcomed. It is necessary however to keep one qualification in mind. The proportion of population dependent upon agriculture is still 50 per cent in Malaysia and more than 70 per cent in Thailand. This underlines the need for maintaining the momentum of agricultural growth if incomes of this very large segment of the population are to continue to rise. Satisfactory growth is also vital for several other important reasons, including the need to maintain export earnings.

This raises two problems. Given the poor prospects for commodity prices over the next 10-15 years, an improvement in incomes will be harder to achieve. The answer lies either in raising yields of existing crops to raise the net return to the farmer or in changing from low-value crops like paddy to higher value ones. The study discusses the options open to each country, taking into account the risks involved in a slowdown in cereals.

The second problem is that the countries are running out of the easier and less expensive ways of raising agricultural productivity. The new "miracle" seeds have been planted already in most of the areas suited to them, although there is still much scope for improving yields through more intensive cultivation in such areas. Likewise, the easier irrigation schemes have been built, leaving the more difficult and expensive ones to be tackled in the future. Again, the scope for extending cultivation to virgin lands is pretty much exhausted. With the cost of improving agriculture going up in these several ways, the challenges facing Asean -- as well as the other LDCs -- are much greater. It will be more necessary than ever before to ensure the availability -- in terms of prices and supplies -- of the inputs required by the farmer, and to give him the incentives to use them.

Industry

The pursuit of more or less liberal trade policies by the Asean countries has led to imports rising rapidly -- even faster than exports in the case of Indonesia and Malaysia. In most years, all five have incurred current account deficits -- one reason for their large borrowings. Since this cannot go on, there is a growing interest in a second round of import substitution. The scope for this differs from country to country but the basic issues involved are the same. Drawing upon the experience of early starters like South Korea and Brazil, The study examines whether ~~is~~ it is possible to do this without saddling the economies with a permanent burden of high costs that India and China have imposed on themselves? In all Asean countries, as in the other LDCs, the bulk of imports consists of capital and intermediate goods in about equal proportions. In what categories of such goods are the penalties of production on a smaller scale less severe than in others?

Another major issue relates to the role that LDCs in general -- and Asean in particular -- will play in international subcontracting of which offshore electronics plants are a typical example. Will the increasing trend towards automation in industrial countries, via the microprocessor, make offshore assembly unattractive? Although no one can at this stage foresee how the international division of labour will be affected by technological changes, the question needs to be posed in order to note the possible dangers as well as opportunities.

The question is all the more important because offshore assembly and processing accounts for a significant propo- sition of industrial employment in Malaysia and Singapore while the others have either started or have plans to draw in the same kind of units. There is no denying their need to promote labour-intensive manufacturing to draw off excess man power from the countryside, making it necessary to consider all possible ways in which this can be done. The role of small industry needs to be discussed in this context. At present, it accounts for the bulk of industrial employment everywhere except Singapore but the value added is only one-third to one-fifth of the total contributed by industry. This suggests low productivity per worker and also perhaps less efficiency in the use of capital. Japan's experience shows, however, that these deficiencies are not intrinsic and can be remedied through better management, upgrading of skills and a modification of current policies which discriminate in favour of large, capital-intensive units.

Energy

Energy consumption per million dollars of GNP has gone down in three Asean countries but gone up in Indonesia and Thailand. In all the countries, consumption on a per capita basis has increased -- particularly fast in Singapore and Thailand. The study notes the reasons for these disparities to draw some conclusions which may be useful to Asean policy-makers as well as to their counterparts in other LDCs. The discussion is based on the assumption that energy conserva-tion remains a central issue for all LDCs, including oil exporters like Indonesia and Malaysia, despite the projec-tions offered by the World Bank and others that oil prices are likely to rise much more slowly than in the past.

Conservation will have to be supplemented by efforts to increase domestic supplies and to substitute scarce fuels like oil by those more readily available. How well have Asean countries taken these factors into account in their demand management policies? It is in this context that the study notes the efforts being made to augment domestic supplies through cooperation with neighbours via long-distance power transmission and gas pipelines. The study also goes into issues involved in finding adequate financing for developing domestic and regional energy supplies. Although the situation differs from country to country, it should be possible to draw upon the experience of other LDCs to identify common constraints and opportunities.

Finally, the Asean agricultural countries face -- like other ~~other~~ LDCs -- an urgent need to find alternative fuels for their rural populations. The ecological dangers inherent in present patterns of consumption leaves them with no choice. The solutions will differ from one country to another depending on income levels and the natural endowment but a comparative study should be able to pinpoint the concerns that all LDCs should keep in mind.

Foreign Trade

Asean economies are rightly characterised as open because their trade/GDP ratio is higher than the world average. While the study will not presume to find an answer for the long-debated question whether trade facilates accelerated growth or vice versa, it will be interesting to examine the effects of trade policies on patterns of industrial growth, employment and income distribution. The analysis may also help to pinpoint why the Asean five have succeeded in raising exports faster than most other middle income countries. This part of the discussion will examine, to the extent feasible, the effect on trade performance of exchange rate policies, tariff structures and trade promotion measures.

In considering the policy framework in which foreign trade takes place, it may be possible to examine -- thanks to recent work done by the UN Centre for Trans~~actional~~ national ~~cooperation~~ Corporations in Bangkok -- the part played by international companies in the Asean fives' exchanges with the world. Does this offer any lessons that other LDCs should note? Also to be considered in this context is the effort being made to develop new all-purpose trading entities patterned after Japan's sogo soshas. This will require looking into the question how a country can use the imports made by it as leverage to obtain access to export markets. This would link up with the current debate regarding reciprocal trade concessions between industrial countries and the better-off LDCs.

Another aspect the study will examine is the scope for reducing dependence on industrial countries for both markets as well as supplies. This discussion here will fall into two parts -- one relating to the scope for expanding intra-Asean trade and the other to trade with other LDCs. As noted earlier, Asean ranks as the second most successful LDC grouping judged by the yardstick of the growth in its intra-trade during the 1970s. Despite this growth, the ratio of intra-trade to world trade has remained unchanged -- suggesting that expansion of mutual exchanges has not been of the trade-diverting kind even though preferential tariffs began to be introduced in 1977. A close look at this intra-trade and trade with LDCs may be of interest because of the hopes now being invested in South-South cooperation as one way of offsetting slower growth of industrial markets.

Mobilisation of internal resources

The study compares rates of gross domestic savings and domestic capital formation in the Asean countries with those obtaining in other LDCs. ~~Fiscal policies pursued by the Asean countries with those obtaining in other LDCs.~~ Fiscal policies pursued by the Asean five are reviewed in this context. This leads to a discussion of the role played by fiscal policies in the redistribution of incomes and in influencing the terms of trade between the cities and rural areas. Also examined is the effect of fiscal policies on the balance of payments. The analyses along these several directions draws upon the experience of other LDCs to judge whether there are any significant differences for better or for worse.

The study reviews the development of the financial markets in Asean to judge the role played by the private sector in mobilising private savings. This leads on to the question whether it will be possible for the private sector to take up the slack arising from the curtailment of the role of governments in the economies -- as contemplated in Indonesia and Malaysia. As in other LDCs, the issue is not merely of raising the volume of private savings but also of persuading severs to hold their assets in a form which will do the economy the most good.

External Viability

Like all other LDCs, Asean economies -- excepting Singapore -- are faced with a serious deterioration in their balance of payments. Part of this is because of a sharp fall in terms of trade due to reasons beyond their control but in part this is because of either ambitious development programmes undertaken under mistaken assumptions about world economic prospects or unwise domestic policies which permitted consumption requiring imports to expand too fast. A process of adjustment is under way as in other LDCs to bring the payments deficits back to sustainable levels. How does this process of "structural adjustment" -- the tag attaching to it -- compare with similar exercises being undertaken in other LDCs? Although the problems are similar, the modalities being adopted to arrive at a solution may differ. This is possible because even though the ratio of Malaysia's foreign debt to GDP -- considering only the sums owed on government account for periods of more than a year -- was higher than that of Mexico in 1981, Malaysia's debt carrying capacity was greater because of the higher growth rate of its exports. Also to be examined in this context is the inflow of foreign investment into the Asean five. The share of the five in the stock of total foreign investments in the LDCs has grown appreciably in the 1970s. This prompts two questions. Why have the Asean five attracted a larger inflow than they did in the past? And will this inflow be sustained? Answering both these questions will require comparing Asean's attractions vis-a-vis other contenders for investment dollars.

Regional Cooperation

Although intra-Asean exchanges will have been considered in the context of energy, industry, foreign trade, etc, a separate and integrated discussion of the issues involved in regional give and take is warranted because of the interest such groupings have acquired in the light of schemes for South-South cooperation. In view of the studies done by UNCTAD on the performance of such groupings, it will be useful to see how Asean mechanisms for promoting intra-regional initiatives compare with those of the other schemes in Latin America and Africa. This may yield some ideas on the kind of initiatives that are likely to work. Do the differences in circumstances of participating countries -- as those between Singapore and Indonesia -- represent an insurmountable obstacle, as an elder statesman in Bangkok recently suggested? If this is the case, should

Asean seek to bypass the obstacle by leaving the city state out of economic cooperation schemes?

Social wellbeing

Has economic progress brought increased social well-being to Asean's 264 million people? Yes it has, but there are some disconcerting lacunae. This part of the study compares Asean social indicators with those of other comparable countries to pinpoint leads and lags. An attempt is made to find the underlying reasons in the hope that this will indicate the changes required in priorities. Particular attention is paid to issues like infant mortality and women's access to education and to jobs which have a bearing on the rates of population growth. Secondly, policies for manpower development are examined both from the viewpoint of social justice and of their relevance to the needs of economy. The breakdown of educational expenditures is reviewed in this context to judge whether this is appropriate. Thirdly, the issues arising from internal migration are studied to assess how the Asean five are coping with them in comparison with other countries faced with the same problem. Finally, Asean's record in dealing with environmental hazards is examined to see whether the consequences of rising population and economic growth are being adequately tackled. Some are quite clearly doing so better than others but is this because of disparities in financial resources that can be devoted to tasks in this field?