

ECONOMIC DEVELOPMENT: MIRACLE, CRISIS AND REGIONALISM

Hubungan Internasional Asia Tenggara

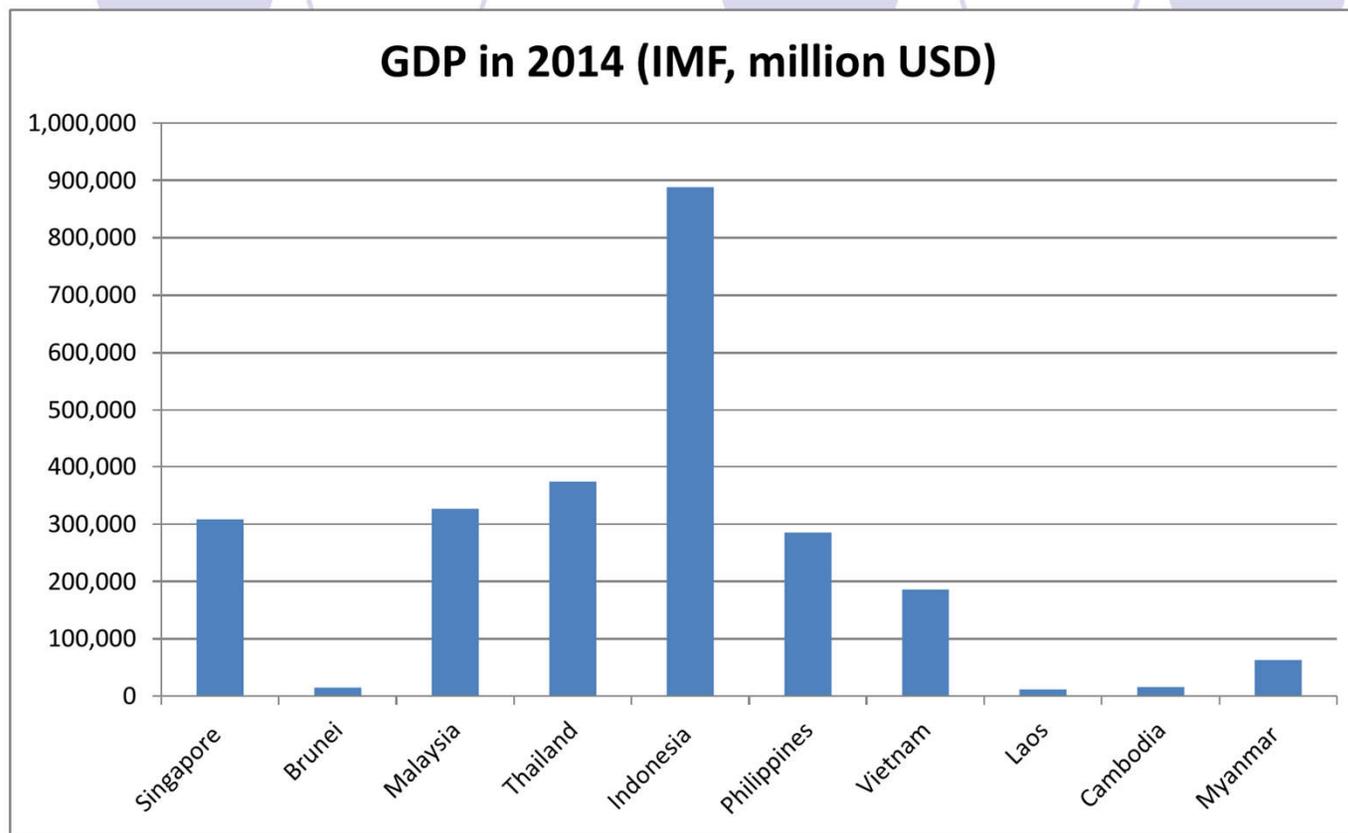
Outline of the Lecture

- [?] Southeast Asian economies at a glance
 - [?] Resource-based early development
 - [?] From ISI to EOI
 - [?] The 'Southeast Asian Miracle'
 - [?] Asian Financial Crisis 1997-98
 - [?] Post-crisis regional economic cooperation
 - [?] Southeast Asian economies reconsidered

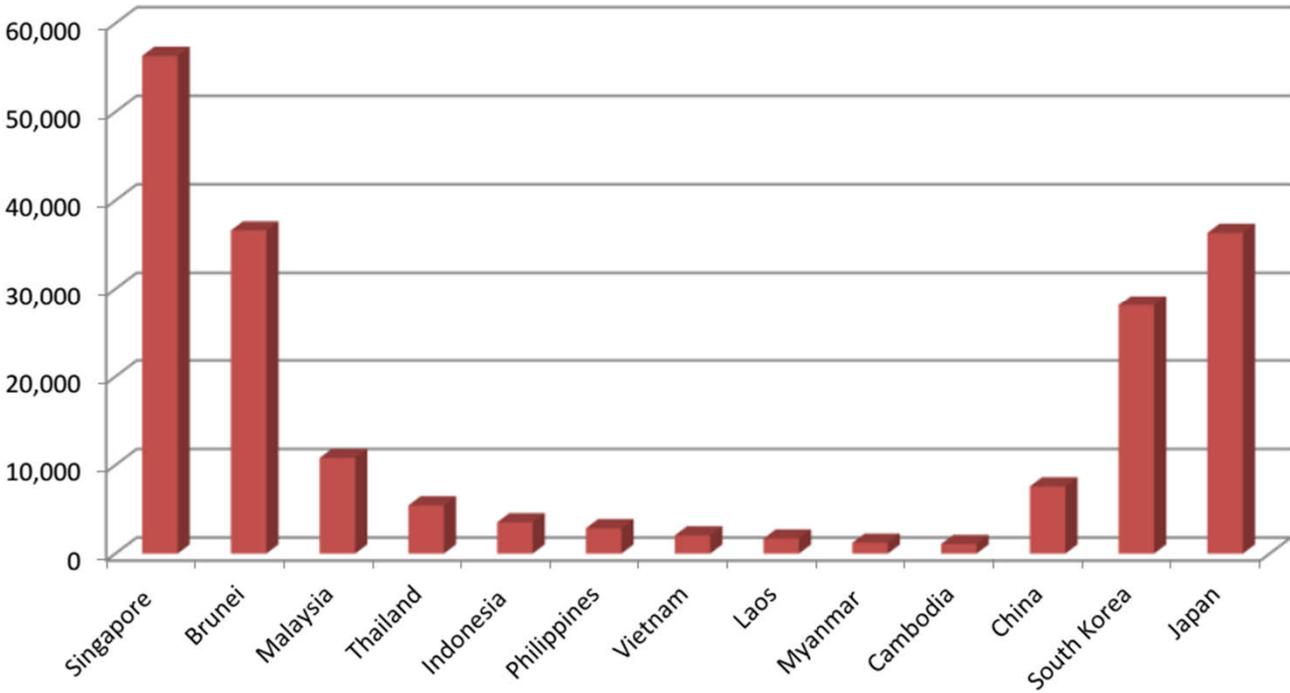
GDP and GDP per capita of Southeast Asian Countries (IMF data, 2014)

	Singapore	Brunei	Malaysia	Thailand	Indonesia	The Philippines	Vietnam	The Laos	Cambodia	Myanmar
GDP, million US\$	308,051	<u>15,102</u>	326,933	<u>373,804</u>	888,648	284,927	186,049	11,676	16,551	62,802
GDP per capita, US\$	56,319	<u>36,607</u>	10,804	<u>5,445</u>	3,534	2,865	2,053	1,639	1,081	1,221

Southeast Asian economies at a glance



GDP per capita in 2014 (IMF, USD)



Southeast Asian economies at a glance

- Three tiers of economic development
- ☐ First tier: Singapore, Brunei
- ☐ Second tier: Malaysia, Thailand, the Philippines, Indonesia
- ☐ Third tier: Vietnam, Laos, Cambodia, Myanmar

Southeast Asian economies at a glance

- Brief overview of individual Southeast Asian economies

☐ Singapore: city-state, trade Brunei: oil/gas export

☐ Malaysia: electronics, palm oil and rubber

☐ Thailand: textile, electronics, food and agriculture

☐ Philippines: OFWs, electronics, and agriculture (fruits)

☐ Indonesia: oil, mining, plywood and textile

☐ Vietnam: textile, footwear Cambodia: timber, textile

☐ Laos: agriculture Myanmar: agriculture, timber

Resource-based early development

☐ Southeast Asia has long been a supplier of tropical products and minerals since the colonial period

Resource-based industries remained important during the period soon after the independence (WWII)

☐ Petroleum, mining, etc.

☐ State and private companies

Agricultural development crucial to regime survival and consolidation

☐ Political support in rural areas

☐ To counter Communist insurgencies

During the Cold War, the US encouraged resource-based growth in Southeast Asia, making Japan 'the Workshop of Asia'

From ISI to EOI

- ? Import-substituted industrialization (ISI)
 - ? In 1950s and 1960s ISI was adopted to pursue development
 - ? Quotas and tariffs to protect domestic manufacture industries
 - ? However, ISI neither led to anti-trade coalition nor produced a inward-looking development strategy
- Export-oriented industrialization (EOI)
 - ? In 1970s, several Southeast Asian countries followed EOI to attract of the inflow of Japanese investment
 - ? Economic *dualism*: global manufacturing sectors coexisted with domestic non-tradable sectors
 - ? Anti-Japanese riots in 1974 and the *Fukuda Doctrine* in 1977

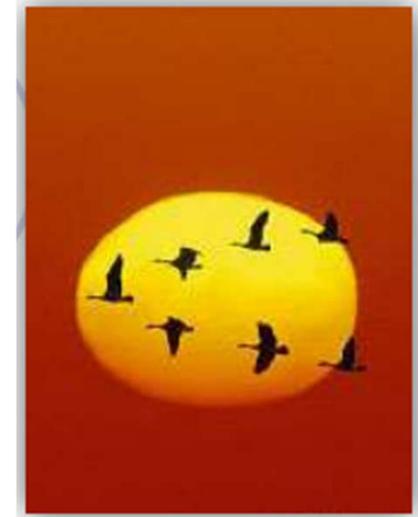
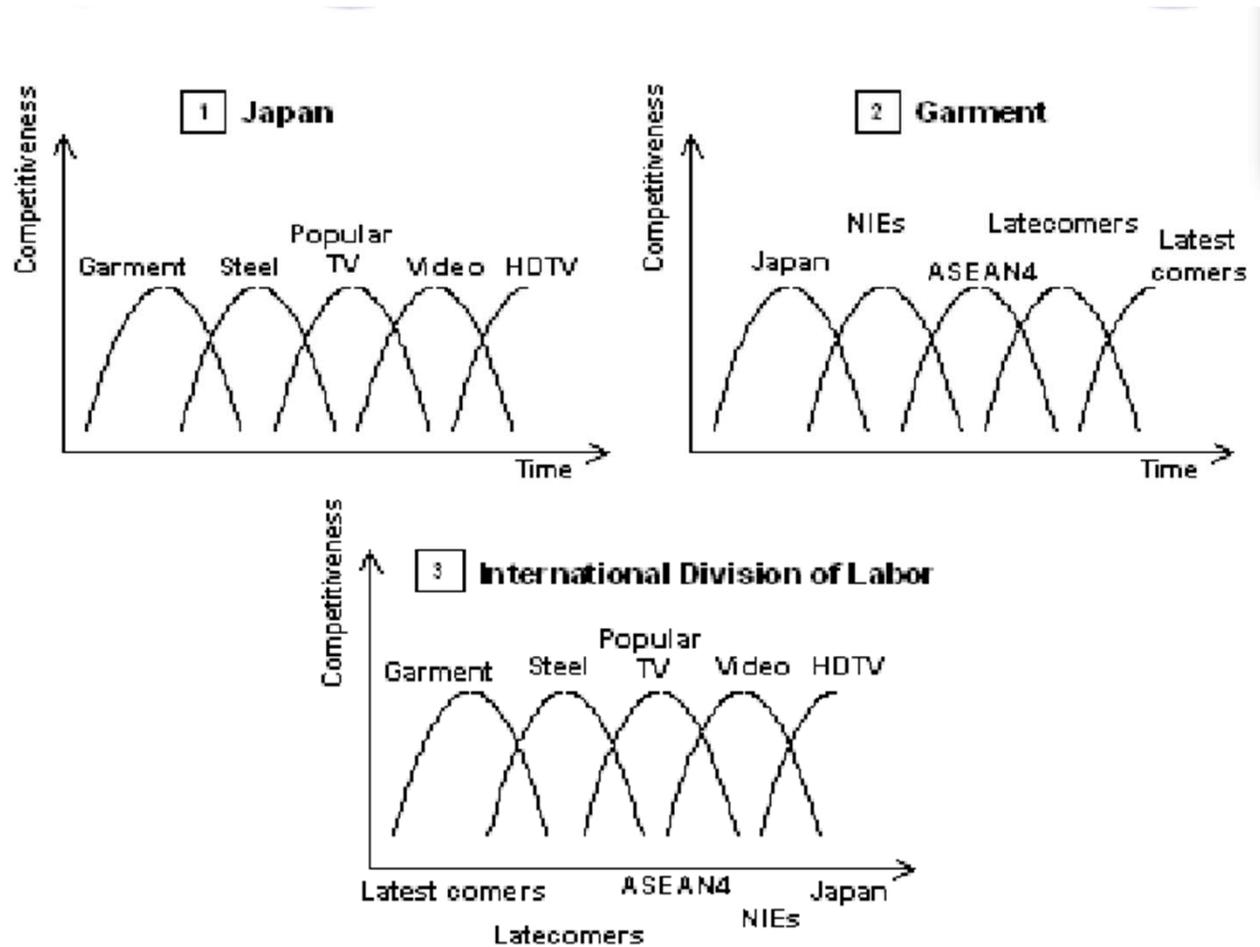
'Southeast Asian Miracle'

- [?] The 1980s witnessed a huge inflow of FDIs
 - [?] Background: commodity price collapsed in mid-1980s; the Plaza Accord (Japan agreed to appreciate JPY against USD)
 - [?] Various measures were undertaken to attract foreign investment
 - [?] FDIs from Japan, South Korea, Taiwan, Europe and the US
- Privatization allowed important domestic investment
 - [?] Boom in infrastructure, utilities, and construction projects

'Southeast Asian Miracle'

- The formation of a regional economy in Southeast Asia
 - ☐ The 'flying geese' model of Asian development
- ☐ Private business networks (by overseas Chinese, Japanese, Korean and American companies)
- ☐ Regional production network, global value chains, and intra industrial division of labour

'Flying Geese' Model



Intra-regional trade in East Asia

Asia's booming intra-regional trade

Intra-regional trade now accounts for more than 50 percent of total trade in Asia.

(Share of the direction of exports in 2006 and changes from 1990 in parentheses.)

Exporting Region	Directions					
	Asia	Emerging Asia	Industrial Asia	NAFTA	EU15	Rest of the World
	Asia	51.9 (9.2)	42.1 (11.7)	9.9 (-2.5)	20.7 (-6.9)	14.2 (-4.1)
Emerging Asia	51.6 (4.1)	40.8 (9.8)	10.8 (-5.7)	20.1 (-4.6)	14.6 (-2.2)	13.6 (2.7)
Industrial Asia	53.1 (16.2)	46.5 (16.9)	6.6 (-0.7)	22.5 (-8.7)	12.8 (-7.4)	11.6 (-0.1)
NAFTA ¹	19.5 (-5.8)	13.5 (1.0)	6.0 (-6.8)	52.5 (11.9)	14.6 (-7.4)	13.4 (1.3)
EU15 ²	8.2 (0.7)	6.1 (1.7)	2.2 (-1.0)	9.6 (1.2)	59.2 (-6.7)	23.0 (4.8)

Source: IMF Direction of Trade Statistics, and staff calculations.

Asian Financial Crisis 1997-98



- Background of the crisis
- Domestic banking sector and financial market were liberalised in late 1980s and early 1990s
 - By mid-1990s, the inflow of short-term investment overtook long term FDIs
- Macro-economic structure: fixed exchange rate + high domestic interest rate
 - domestic asset-price bubbles

Asian Financial Crisis 1997-98



Asian Financial Crisis 1997-98

- The unfolding of the crisis
 - ☐ Thailand forced to float its currency in 1997
 - ☐ Quick devaluation led to massive capital flight
 - ☐ IMF offered assistance under the conditions of domestic reforms
 - ☐ Indonesia, Thailand, and the Philippines received IMF loans, while Malaysia resorted to temporary capital controls

Asian Financial Crisis 1997-98

	Three-Month Interest Rates			Change in US Dollar Exchange Rate Jun 97 to Sep 98 (b)	Change in Real Exchange Rate Jun 97 to Sep 98 (b)	Move in Stock Market During 1997
	Average in 1996	Peak Level (a)	Date of 1997 Peak			
Hong Kong	5.5%	25.0%	October	0.0%	16.1%	-18.7%
Indonesia	13.8%	27.7%	October	-77.7%	-56.3%	-37.0%
Malaysia	7.3%	8.8%	November	-39.8%	-27.2%	-52.2%
Philippines	11.7%	85.0%	October	-38.3%	-26.0%	-40.3%
Singapore	3.0%	10.3%	December	-17.6%	-2.7%	-31.7%
South Korea	13.3%	25.0%	October	-33.8%	-19.8%	-42.6%
Taiwan	5.5%	9.8%	October	-19.4%	-12.4%	9.3%
Thailand	13.0%	26.0%	December	-36.7%	-19.1%	-55.2%

Source: Karunatileka 1999.

Post-crisis regional economic cooperation

- The Japanese proposal of AMF
 - The Asian Monetary Fund.
 - The US and IMF opposed the idea, China was not enthusiastic

Southeast Asian economies reconsidered

- ASEAN Plus Three and the Chiang Mai Initiative (CMI)
 - ASEAN-10 plus Japan, China and South Korea
 - CMI: bilateral currency swap agreements (2000-) -> multilateral foreign reserve pool of USD120 billion in 2010 -> expanded to USD240 billion in 2012
- The Bali Concord (2003)
 - To create the ASEAN Community

Southeast Asian economies reconsidered

- ☐ Southeast Asian economies have long been an integral part of the global economy
 - ☐ Ancient trading route between the East and the West
 - ☐ Colonial production base for European countries
 - ☐ The Japan-led 'flying geese' model of economic development
 - ☐ East Asian regional production network and global value chains

Southeast Asian economies reconsidered

- The state has played an important role in Southeast Asian economic development
 - ☐ State-mediated capitalism
 - ☐ interventionist and clientelist economic policy-making
 - ☐ adaptive state strategies under economic difficulties
 - ☐ Economic prosperity enhances the legitimacy of the state

Southeast Asian economies reconsidered

- Challenges ahead: Reconciling the domestic, the regional and the global in future economic development
 - ☐ Negotiating free trade agreements
 - ☐ Constructing a viable financial infrastructure
 - ☐ Pursuing regional economic integration

Next

Human Rights and Human Security in Southeast Asia