

**DEVELOPMENT PROBLEMS OF THE SOUTHEAST ASIAN
ECONOMIES**

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ABSTRACT

Southeast Asian economies have already gone a long way of development. Firstly, they have survived a period of economic miracle, which de facto was not a miracle, but based on good macroeconomic policy and strong foundations, such as high interest rate and macroeconomic stability. Secondly, the economies have experienced deep crisis, which has proven that good policies are not sufficient condition for development. Apart of them economy needs good, mature institutions and management. Reforming those institutions as well as political reforms is especially important, if countries open politically as well as their economies. Reforms with parallel process of transforming countries towards democracy, and sometimes still decentralization is a great challenge for them. Thirdly, dynamic development of the Chinese and Indian economies has constrained other countries and those being members of the Association of Southeast Asian Nations (ASEAN) as well, to certain adjustments. ASEAN countries represent different development levels, what significantly determines their future aims and policies as well as their advances in the world and region's society. The article answers three important questions connected with further development of the ASEAN countries:

1. Are the ASEAN countries able to avoid internal disintegration while growing intolerance for deepening disparities in the societies of individual countries, increase in pollution and corruption?
2. Are the ASEAN countries going to profit on the success of China and India, or, maybe opposite, is it going to be additional competitive struggle in international markets?
3. Will the regional integration help in raising the economic effectiveness, or is it to cause external shocks in individual economies?

Keywords: *Southeast Asia, Economic Development, Regional Integration*

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EU DEVELOPMENT PROBLEMS OF THE SOUTHEAST ASIAN ECONOMIES

INTRODUCTION

Southeast Asian economies have already come a long way of development. Firstly, they have survived a period of economic miracle, which *de facto* was not a miracle, but based on good macroeconomic policy and strong foundations, such as high interest rate and macroeconomic stability, economic activity. Secondly, the economies have experienced deep crisis, which has proven that good policies are not sufficient conditions for development. Apart of them economy needs good, mature institutions and management. Reforming those institutions as well as political reforms are especially important, when countries open themselves politically and economically. Reforms with parallel process of transforming countries towards democracy, and sometimes still decentralization (as in Indonesia) are a great challenge for them. Thirdly, dynamic development of Chinese and Indian economies has constrained many countries, and the Association of Southeast Asian Nations (ASEAN) members among them, to certain adjustments.

ASEAN countries are diversified as to development levels, what significantly determines their future aims and policies as well as their advances in the world and region's society. Highly developed Singapore has to look for new impulses for further development through entering certain niche sectors. Its further economic development will be based on increase of services sector. Relatively developed economies of Malaysia and Thailand have comparative advantages in export oriented industries, such as: electronics, car industry, and, to a lesser extend, textile and clothes industries and also raw materials. It should be mentioned that these countries will also enter the niche sectors. Indonesia is the biggest country of the region.

The Asian crisis touched the economy of the region very strongly, but the individual economies "healed the wounds" in relatively short time. Unfortunately ten years later – in 2008 - another crisis broke out – this time it started in the United States. The lessons of the first one pushed the countries of the region towards high foreign reserves, banks have become much more cautious and with better reputation, and corporations not so eager to leverage themselves with loans. Comparatively de-leveraged corporations, rich governments and more credible banks in Southeast Asia create much better environment to cope with the global recession, than in the 90. There has also been a significant decrease of private loans as the percentage of GDP in the region (only Indonesian index has worsened)

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(Crispin, 2008). Nonetheless, the economies of the region have lately experienced strong outflow of foreign capital, which has fled to its home markets, improving their positions weakened by the financial crisis. The drop in share and bond prices in the region has become a consequence of it. So it has become evident that total decoupling from a slow-down in the US economic growth is impossible.

We should also mention strong dependence on trade with Japan, European Union and especially the US market of the Southeast and East Asian economies. Although the intraregional trade has shown significant increase since the beginning of the 90s (see Table 1) and its share in total ASEAN trade has risen from 20.8% in 1993 to 25.1% in 2006, and 50.2% in 2008 (ASEAN Statistics, 2009), comparison of the flows of goods between Southeast and East Asian economies to those with main partners from the developed countries, especially the US, shows that intraregional trade is *de facto* highly dependent on the demand of the American market. This dependence is easily noticed in Figure 1. Export curves for the period of 1990-2005 are almost identical in shape, while analyzing exports of China from Malaysia or Republic of Korea and comparing of Chinese exports to the US. The analysis of trade in further years brings the same conclusions. This high correlation is especially thought-provoking in the current situation.

Table 1: Intra-ASEAN Trade 1993-2008

Year	Trade (USD bn)
1993	82.4
1995	123.8
1997	150.0
1999	131.5
2001	152.1
2003	159.5
2005	304.9
2006	352.8
2007	403.0
2008	858.1

Source: ASEAN Statistics, 2009

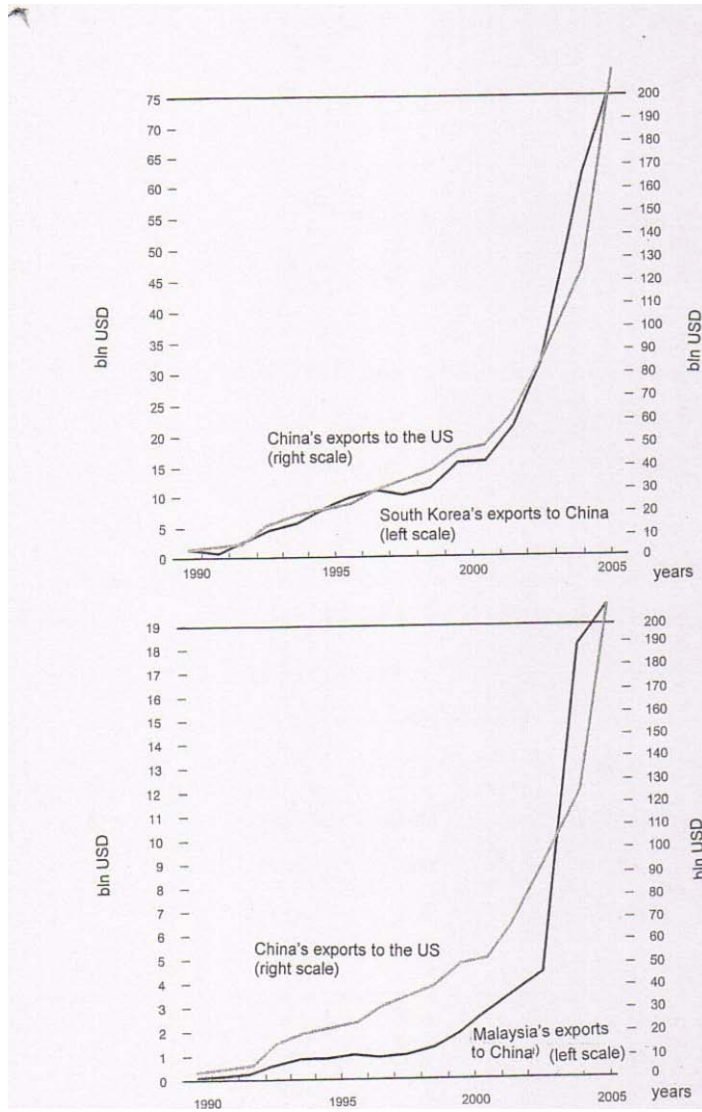


Figure 1: Triangular Merchandise Trade between Asia and the US in 1990-2005 (bln USD)

Source: Trade and Development Report, 2005; World Trade Report 2005, 2006; World Trade Report 2007, 2008

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The above mentioned dependence does not change the fact that, anyway, the outward policy of the countries of the region has brought them success allowing them to get out of the poverty trap. About 40 years ago Southeast and East Asia was one of the poorest regions in the world.

POLICIES SUPPORTING SUSTAINABLE DEVELOPMENT OF THE ASEAN ECONOMIES

Governments of the Southeast Asian countries have kept some tools and regulation mechanisms allowing them to drive the economies towards the global market and reduction of inequalities. To succeed in the future the countries should identify ways of using positive sides of globalization, not forgetting about the risks the process may bring to their economies. The project ASEAN+3 (ASEAN plus China, Japan and Republic of Korea), if based on the logic of agreements on economic association, will allow to adjust economic processes on the level of the whole region, limiting the negative influence of economic competition on the level of each country, region and the whole globe.

Southeast Asia has gone through three waves of integration. The first wave (the 60s and the 70s) was more isolationist in character. The two next ones were much more successful.

The second wave (the 80s and the 90s) integrated economies with the global market - it in some way supported globalization process. And the third one (the beginning of the 21st century) – has started the process of integrating within the region. It has been helping Asia to emancipate and accelerate its development.

In the consequence of applying the same patterns of development, deriving from “the flying geese” paradigm², one can notice the same

² The Flying Geese Paradigm is a view developed in the 1930s by a Japanese scholar Kaname Akamatsu. The idea gained wider popularity in the 1960s after its author published his ideas in “The Journal of Developing Economies”. The paradigm deals with the economic and technological development in Southeast Asia viewing Japan as a leading power. The FGP is a model for international division of labour in the above mentioned region based on dynamic comparative advantage. The paradigm postulated that the economies of the region would follow the pattern delivered by the most developed country there that is Japan, and afterwards the production of commoditized goods would continuously move from more advanced economy to a less advanced ones. It may remind the flying geese pattern, with the strongest one at front (Japan), followed by first tier (Republic of China-Taiwan, South Korea, Singapore and Hong Kong), second tier (the core ASEAN economies: Indonesia, Malaysia, the Philippines and Thailand) and third tier (China, Viet Nam etc.) (Akamatsu, 1962).

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common basic institutional layer and common practice of economic policy. These two factors are indispensable prerequisites for creating economic community. Thanks to intergovernmental cooperation the economies of the region will be able to deepen the international division of labor. Each economy, being included into a regional production network, where competition is substituted by cooperation, is able to work out competitive advantages.

Now the economies of the region have to undergo the fourth wave of integration - a little different in character – on a national level. Transparency of governments and fighting corruption are the main points within this wave.

Region of Southeast Asia has undergone great transformation. Intraregional trade has become a principle of a new economic pattern connected with more sophisticated regional networks of production, with much bigger attention paid to higher qualifications and high tech products, with inflow of modern technologies, much sounder banking systems and loan structures. Old Asia was based on “the flying geese” paradigm mentioned above. Now we can notice renaissance of Asia. New Asia is more innovative and covered with networks, with very competitive business environment, open to new products and processes as well as human capital able to absorb new ideas (Gill & Kharas, 2006).

Economic growth is not evenly distributed within the region and individual countries. It is geographically and socially concentrated within those countries, but governments have a chance to distribute more fairly the profits of this growth. The worsening distribution of the development effects may be the sign that the economies lose their development possibilities and do not exploit their full potential. Nowadays 12% of Thailand's population living in Bangkok gets 40% of the country's GDP, for the Philippines and Manila the data are 13% and 30%, for Viet Nam and Ho Chi Minh – 6% and 20% of GDP. They should concentrate more on small and medium size towns, wider access to social services, more transparency and responsibility on the national as well as local level.

Another problem is corruption. The situation is differentiated within the region, as far as this problem is concerned. Singapore is one of the top ranking countries (4th position on the Transparency International organization list with the corruption perceptions index 9.2) (TI 2008 corruption perception, 2008)³ as the least corrupt country. Malaysia, with the index 5.1, is on the 47th position. All other countries of the region are infected with corruption with the indices much below 5 (Thailand - 3.5, Viet Nam – 2.7,

³ CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and 0 (highly corrupt).

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Indonesia – 2.6, Philippines – 2.3, Cambodia – 1.8, Myanmar - last but one on the list – 1.3 in 2008) (TI 2008 corruption perception, 2008). On the other hand, when comparing to other regions, it appears that all other regions, apart of OECD countries, are more corrupted than ASEAN (Murphy & Hessel, 2003). This does not stop the countries from fighting this plague. Leaders of such countries as Malaysia, Indonesia and Viet Nam have already accepted as priority the fight against corruption. It is important that private sectors in each of the countries are also engaged in the process. There is also a need in the region to make collective efforts to address these issues before they become a source of a friction for the future growth of the region.

Pollution is also an important issue that should be solved in this part of the world. Rapid economic development of the region has brought tremendous benefit to it, but parallel, a concern over its adverse environmental consequences has appeared. This problem is to be dealt with on the national level as well as on the regional level, as some of the issues are transboundary in their nature (transboundary rivers, protected areas, global climate change etc.). Coordinated actions on the regional level may ease dealing with those issues and be more effective.

Some more fields could be pointed out as the key ones in the development of the ASEAN economies. Those most important ones are:

- proper use of mineral and energy resources;
- maintaining and development of private sector;
- diminishing of infrastructure gap;
- improvement of governing and efficiency of state institutions by implementing typical Asiatic strategies.

IMPLICATIONS OF ECONOMIC DEVELOPMENT OF CHINA AND INDIA FOR THE DEVELOPMENT OF ASEAN ECONOMIES METHOD

The future of the ASEAN economies is, with no doubts, directly related and, in some sense, dependent on two economies, which de facto are geographically separated just by ASEAN: China and India. Dynamic economic development of China and emergence of the economy of India have changed the structure of powers in Asia. Both the countries, being a pool of human capital, as well as huge and absorbent markets, have become two main pillars of growth in the region. Their demand for energy and numerous other raw materials influences their prices and changes the trade and investment dynamics not only in the region, but also in the whole world economy.

Southeast Asia is to play a role of the third pillar for establishing balance in the whole region in the future. It is a great challenge for those countries.

Speaking about Chinese economy, one should remember that China has been a member of WTO since 2001, what, in consequence, is connected with an enormous portion of liberalization of trade and investment – the most tremendous one the world has ever coped with.

The Chinese membership in WTO has been connected with the country's large obligations – much higher than those of other developing economies. It has become a symbol of powerful wave of economic liberalization and globalization in the last 25 years. China has directed its way as far as its position and policy in the region are concerned (Sally & Sen, 2005a). However, it should be mentioned that this wave of liberalization has "lowered" lately. The stagnation of the Doha Round, frequent cases of returning to protectionism and economic nationalism, and some reactions to the 2008 financial crisis are the proofs of it.

Considering mutual relations between economic development of ASEAN and China, one could notice very deep similarity in export structures of those countries to their main partners, with the US at the top, what may bring to the conclusion that the competition among the countries will be much more stronger. The results of the research conducted by S. Srivastava and R. Rajan show that much similarity has appeared between China's and Malaysia's export structure of final goods, especially capital ones, such as data processing equipment, telecommunications equipment and electrical machinery (Srivastava & Rajan, 2005; Sally & Sen, 2005b). In case of Thailand there is a strong similarity in export structures of light manufacturing goods, such as: clothing, miscellaneous household equipment and electric machinery. As to Indonesian exports there is one category – furniture – that is in line with Chinese exports. However, the research mentioned above does not prove that the competition between ASEAN and China is likely to be very high, as there are great differences of quality, brands etc. among the countries. In many cases the products may be even complementary, for example if dealing with vertical specialization, in other ones – they may be competitive – in the situation of horizontal specialization. The situation is similar with India.

Another problem is connected with further changes in the composition and quality of Chinese industry. ASEAN countries must be aware of those changes and continuously control their own competitive advantages and upgrade their industry.

The last problem is strongly connected with foreign direct investment (FDI). FDI is crucial for ASEAN development. Transnational corporations treat ASEAN as an export base and locate export-oriented FDI there. To attract FDI, ASEAN must 'sell' itself as an economic bloc - single investment destination. Below, in Table 2, inflow of FDI to ASEAN, China and India is

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shown. One can easily observe that ASEAN is perceived as good location of FDI, although it must compete for the investment with both the big partners.

FDI is mainly connected with the development of industry, and further it influences the development of towns and improvement of their inhabitants' life. But one should not forget that the majority of Asian societies live in the countryside. So, on the other hand, the concept of *new countryside* in China, which is aiming at more sustainable and equal development between the countryside and towns, will have great positive impact not only on the Chinese internal relations, but also on the neighboring countries. This impact is specially awaited in the situation of warming relations between China and ASEAN after signing the ASEAN – China Free Trade Agreement (ACFTA) in July 2005. Chinese neighbors will be eager to follow China as far as the *new countryside* policy is concerned. ASEAN seems to be impressed by the pragmatism of the Chinese leaders' policy and their win-win approach to bilateral relations with ASEAN countries.

Table 2: FDI Inflow to ASEAN, China and India in 2001-2008 (USD bn)

Year	FDI in ASEAN	FDI in China	FDI in India
2001	19.4	40.7	4.2
2002	13.7	52.7	3.1
2003	20.3	53.5	2.6
2004	25.7	60.6	2.5
2005	41.0	72.4	7.7
2006	52.4	63.0	11.1
2007	69.5	90.4	52.5
2008	60.2	108.3	42.0

Source: ASEAN, World Bank, Shanghaidaily.com., dipp.nic.in, after: Khalid, 2008; World Investment Report 2009

As agriculture sectors are still very important part of the majority of ASEAN members, the leaders of ASEAN would probably want to use some of the Chinese patterns in their economies, especially in the situation when this policy towards the rural areas and their development are perceived as an extremely important part of their internal policy.

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Limiting poverty, similar as in China, is a very important goal in ASEAN, and rural population – generally poorer and less economically developed than the population of big towns - is a significant part of the whole population in the a majority of those countries. In China, as well as in ASEAN countries, there is a need of narrowing the existing income gap, what could guarantee social stabilization in the region.

Integrating India with the world economy will also have impact on the economic policies of the ASEAN economies. Even superficial analysis of the ASEAN trade data allows to concluding that, in spite of deepening integration within ASEAN, intra-ASEAN trade has not increased much lately, while the contacts with China and India are becoming more and more intensive as far as trade and investments are concerned, especially in the case of better developed members of ASEAN. Southeast Asian countries should somehow discount this by applying proper policies, cooperating with the two giants on one hand, competing with them on the other.

CONCLUSIONS

The Asian crisis has been a good lesson for the majority of ASEAN countries, what in consequence has helped them to find themselves in fairly stable position when the current financial crisis broke out. The only countries that could suffer more intensely from financial vulnerabilities now are: Indonesia with its high percentage of private loans and nominal investment, and Viet Nam highly reliant on foreign direct investment, which, what is very probable, will diminish in the near future.

Although more protected from the financial crisis, ASEAN economies could suffer from further consequences of it, in case of slowing down in China, and the US, as their economies and trade are highly dependent on these markets.

Future development of the region will find some stimulus and cushions against current turmoil in wider regional cooperation. Various regional trade agreements (RTAs) and free trade areas (FTAs), if properly approached, could be of much help, unless they are too messy, as “a spaghetti bowl”, to bring positive effects.

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