Economic Development Strategy of ASEAN Countries
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I should first of all like to say, how pleased and honoured I am to be invited to be a speaker at this international seminar, which is held in connection with the celebration of the 25th anniversary of the founding of The Federation of Korean Industries (FKI).

Korea's phenomenal progress and extra-ordinary achievements since the end of the Korean war, earn the admiration of all, and have often inspired countries in the third world to attempt to emulate the Korean model of economic development. Such attempts do not necessarily produce the desired results, because the Korean success is premised, not only upon the government's far-sighted policies and well-orchestrated measures, but also upon the many attributes of the Korean people. The Korean private sector, particularly members of the FKI, have shown themselves to be astute and daring in their corporate planning and strategy. Their enterpreneurial skills and hard-headed determination provide the corner-stones for the edifice of their newly industrialised society.

It is, therefore, with great pleasure that I partake in this special event, and join all of you in this festive occasion of the 25th anniversary of the founding of The FKI.

The subject of my talk to-day is "Economic Development Strategy of ASEAN countries". As you are all familiar, ASEAN, a regional grouping comprising six nations, with a total population of 260 million and a total GDP of about US$250 billion, have up to recent times been doing well together as well as separately. Their performances in the 60's and 70's may fall short of those of the newly-industrialized countries, but on an average and relative to the developing countries in the other parts of the world, their progress has been substantial and consistent. So much so, that their collective strength has rightfully become a significant component of the Asia-Pacific growth.

In the last couple of years, however, ASEAN countries which have been primarily resource-based, and competitive economies, have suffered a severe set-back. Global recession, world-wide protectionism, drastic and across-the-board depression of commodity prices, and other factors, have all militated against the expansion of their economies and rapid growth. Drastic fall of oil prices, collapse of commodity prices, sluggish trade and increasing foreign debt burden, had such an adverse and immediate impact on the ASEAN states that their annual economic growth were considerably reduced. In some cases like Singapore and the Philippines, even negative growth was registered in 1985.

All ASEAN countries have open economies, with international trade accounting for a high proportion of Gross National Product (GNP). The total value of the combined exports and imports, to GNP, varies from 40 per cent in the case of Indonesia, the Philippines and Thailand to almost 100 per cent for Malaysia and as high as 300 per cent for Singapore.

Average international terms of trade for ASEAN, began to worsen in the mid-70's, but the deterioration was more pronounced and substantial from 1981 to 1985. From 1976 to 1985, Indonesia, The Philippines and Thailand were the hardest hit in this area, deteriorating by 20 to 30 per cent. For Malaysia, the extent of terms of trade deterioration, was more modest at 8.4 per cent, while Singapore suffered least with its terms of trade declining slightly by 1.1 per cent.

As a consequence of this depressing scenario in the international terms of trade, real economic growth of all ASEAN countries during the 1981-1985 period (Brunei is excepted, throughout the address, because of unavailability of data). The Philippines showed no real growth. , Indonesia slowed down from the average of 7.9 per cent during 1976-1980 to 4.4 per cent a year during 1981-1985. Thailand's rate came down from 7.6 per cent to 5.3 per cent a year. Malaysia from 8.6 per cent to 5.8 per cent a year.' Singapore from 8.8 per cent to 5.9 per cent a year.

To counter declines in terms of trade, Singapore and Malaysia adopted expansionary domestic investment policies, in expectation of maintaining high economic growth rates, while Indonesia, the Philippines and Thailand, on the other hand, pursued restrictive monetary and fiscal policies.

The prospects for meaningful economic growth for ASEAN countries for 1986 are not too good. Indonesia and Malaysia are expected to have a marginal growth. The Philippines, depending on the continued political stability and success of measures taken so far, may this year have a small growth. Singapore starts to show signs of recovery and may come up with a modest positive growth, as against a negative growth of 2 per cent projected early in late 1985. Only Thailand is able to revise its forecast of 3.5 per cent up to 4.5 per cent growth in 1986.

There are, however, some disturbing signals, which need to be attended to. ASEAN countries, excepting Singapore, whether adopting expansionary or restrictive investment policies, failed to mobilize an adequate level of domestic savings to finance their domestic investment programmes. Their investment outlay far exceeded domestic savings - pointing to their heavy reliance on external borrowing and foreign debt, to finance their current account deficits.

Rapid increase of foreign debts and subsequential debt- servicing obligations, have now become major issues, in varying degree, to be tackled by the ASEAN governments, with the exception of Brunei and Singapore. It has been suggested that a two pronged strategy may be adopted for the future.

First, every attempt should be made to keep the level of domestic investment on the same par as domestic savings. This strategy does not preclude the possibility or even the desirability, that under certain circumstances and in a given year, governments may prudently undertake stimulative investment policies, to attain acceptable levels of growth, income and employment. In the long run, such expansionary policies should be coupled with effective domestic savings mobilization policies and measures, so as not to raise further the already critical level of external debts and current account deficits.

Secondly, the private sector themselves, have to make efforts to restructure their corporate financing, by reducing debts, and relying more on equity financing, both in the form of corporate stocks and long-term debentures. Development of capital market and financial instruments, appear to be urgent tasks.

What I have just related, is not really applicable to Singapore, whose economy is dis-similar to those of the other ASEAN states. Singapore. has no debt problem. Her national savings rate, remains one of the highest in the world. She could, and still can, afford expansionary investment policies. But she is facing a different kind of problem, of equal seriousness. Since 1980, an increasingly large share of capital formation has been in the construction and property development. Infrastructure and housing are essential, and productive forms of capital investment, but there is a limit to the amount of infrastructure and housing the economy needs. The high construction investments turned out to be a mis-allocation of resources. The necessary investments, on the other hand, were not going into productive equipment and machinery. Such investments in terms of dollar value even declined, when measured as a proportion of her GDP.

In addition, there continues to be a weakness in domestic demand, caused not only by the slump in construction but also by a continued high rate of national savings, that cannot be channelled into productive domestic investments.

Since Singapore's economy overwhelmingly depends upon a healthy international trading environment, the slow-down in world trade and increased protectionist pressures, have forced Singapore to revise her past policies, in order to regain competitiveness in the keenly-contested international trading. Lowering of corporate and personal income tax, adoption of tax-incentive schemes, reduction of employer contribution rates to the Central Provident Fund, wage restraints and privatization of government-owned enterprises, are the major policy changes that have taken place recently.

Singapore, like all other ASEAN countries, will strive to build on her strengths and develop new advantages. Her expertise in banking and financial services is generally recognised. While Singapore is already an established production base, she also plans to become an international total business centre, for manufacturing and services. She has a comparative advantage in exporting services, which she plans to promote vigourously.

In order to create a conducive business environment, Singapore may also have to engage in some de-regulation exercises. The regulatory environment is likely to be eased to encourage greater private sector initiative.

Indonesia, a primarily oil-based economy, was compelled to adopt austerity measures, and had to re-schedule or scale down many of her ambitious investment projects. She is not yet “out of the woods,” but she has in the recent past exercised greater discipline in financial and development management. She plans to conduct a nation-wide efficiency and austerity movement and further adjust the programmes and plans for development projects, to the financial resources available.

The government of Indonesia, however, is determined to continue the policies of stimulating and making domestic industry sound, by providing, among other things, various tariff concessions on duties for the import of raw materials and intermediary goods, which are essential for the manufacture of high value-added products. She will also accelerate her efforts 'to develop non-oil/gas sectors to broaden her foreign exchange-earnings base.

Indonesia's priorities are as follow:

First, to finish projects currently under construction. The amount of funds to be made available will be matched by the ability to use them.

Second, to supplement the rupiah funds by obtaining project-aid from abroad.

Third, to continue projects that have the character of establishing equity, and of expanding employment opportunities.

Fourth, to provide funds for the operation and maintenance of projects that have been completed.

At the beginning of this year, the President of Indonesia proclaimed that in the fiscal year 1986-7, there would be no new projects.

Indonesia nevertheless expects to see a greater role of the private sector in stimulating the economy and maintaining the pace of development -- particularly by the banking sector in the mobilization of funds and in the channelling of those funds to productive economic activities.

The Philippines is one country that needs all the help she can get. After the traumatic ordeal that the country and people went through in the last several years, the relative peaceful transfer of power, engineered last year by the Filipinoes themselves, is a cause for rejoicing. It is our fervent hope that the present political leadership will be able to enhance the political and economic stability which can in turn generate respectable economic growth for the country in the near future.

The Philippine government's economic development programme has two major goals: economic recovery in the short-term, and sustainable growth in the long-run. To achieve these goals, the government has opted for an employment-oriented, rural-based development strategy designed to improve income in the rural areas, where some 70% of the population lives, and thus perk up market demand.

One major concern of the government is to provide a policy environment that is conducive to agricultural growth and productivity. Towards this end, a number of specific policies will be pursued, which would include, among others, the encouragement of crop diversification, improvement of market infrastructure, implementation of agrarian reform programmes, and expansion of agricultural credit. The government will also support policies that will promote small-scale and labour-intensive enterprises in the rural areas. It will, among others, promote the nucleus concept of developing cottage, small and medium industries; institute a more open-trade regime that will expose domestic producers to fair foreign competition, and induce cost-reduction and increased productivity; simplify investment incentives, particularly on exports, to encourage and facilitate export activity; and encourage foreign investments in high value added, export-oriented and employment generating activities. The government will also adopt an expansionary monetary policy, to stimulate economic activity and a demand-led growth in the short-term and a policy that will promote and maintain a more stable and efficient financial system in the long-term.

The government will play a limited role in economic activities to allow private business to become the prime-mover of growth. The scope and coverage of government will, therefore, be reduced through the abolition, divestment or re-privatization of government corporations whose activities directly compete with, or are equally or more efficiently managed by the private sector.

In view of resource constraints and im-balances, Malaysia is pursuing a strategy of moderate growth with stability - without large scale borrowing as in the past. Towards this end, concerted efforts will be made to increase domestic savings, mobilise domestic resources, attract foreign investment and harness the available resources in the most efficient and productive manner.

In Malaysia's fifth plan, various strategies will be adopted to stimulate growth.

The manufacturing sector has been earmarked to provide the growth impetus. The agricultural sector will be re-vitalised to increase farm earnings and be a productive source of employment. Raising of productivity, tax incentives, private sector participation in economic activities, are all parts of the overall strategy.

The public sector will no longer play a leading role in stimulating growth. Steps will also be taken to gradually reduce the size and role of public sector in the management of public enterprises. The private sector is being encouraged to be more enterprising and resourceful. The government is prepared to de-regulate the economy in stages, and to promote greater private sector investment, especially in local food production. The private sector is also induced to participate as partners, in a Government-sponsored land development scheme.

Now we, come to my own country - Thailand. The new government, which was set up in August after the general elections, announced a set of policies to the Parliament. The highlights pertaining to the economic sector are as follow:

- Prime consideration is to be given to limitation of resources and maintenance of fiscal and monetary stability.

- Further diversification of the economy. Restructuring of the tax system to improve business climate.

- Streamlining of fiscal administrative system and monetary system.

- Promotion of the free-enterprise system through market force and price mechanism. In such promotion, the government's role will be changed, from that of the director or regulator to that of the promoter or supporter, in providing better facilities for economic activities, particularly in the export area.

- Greater role of the private sector in national economic development and tourism promotion. Promotion of labour-generated and resource-based industries.

- Promotion of agricultural productivity, better coordinated strategy for production and marketing of agricultural and agro-based products.

- Science and technology will have a more prominent role in the national development.

- Development of human resources.

- Rationalization of law and regulations governing investment promotion.

- Streamlining of State enterprises by more business-like management or by privatization.

- Development of the capital market.

- Furthermore, the Thai government also plans to revitalize the country's hydrocarbon exploration and production, which has slowed down, because of low oil prices and uncertain outlook. This is in line with the government's energy policy, of placing priority on the lessening of dependence on imported energy, as well as on the development of indigeneous energy resources.

I have so far, tried to deal with ASEAN on a country by country basis. While the problems and challenges faced by each nation are not exactly the same, the responses would therefore differ, both in substance and degree, from one country to another. Yet the following common patterns may emerge.

1. All ASEAN countries need to adjust their mentality and expectation to a future of slower growth than that of the 60's and 70's.

2. Their expansionary economic policy to counter recession will be selective, circumspect and flexible, tempered by the limited public funds.

3. Their adoption of export-oriented policy will force them to be highly competitive in the world market. Tax reform and restructuring, market infrastructure and export facilities, will be high on their agenda for cost reduction.

4. Their commitment to a free and fair international trading system will be put severe test. Their clamour for greater access to major foreign markets, will be answered by an equally earnest call for ASEAN countries to be less protectionist themselves.

5. Unemployment and under-employment problems continue to be serious. Labour-generated and resource-based investments are essential.

6. Private sectors are being called upon to be engines of growth. Here lies the opportunity to emulate our friends in Korea, provided that the ASEAN governments are prepared to introduce concrete 'and practical measures to make business environment conducive to investment, export and other economic activities.

7. The governments' interventionist and regulating role will be reduced.

8. Agricultural production and productivity, with better marketing techniques and strategy will receive priority attention.

9. Rural development is to be accelerated.

10. Defence and national security requirements, need to be placed in the context of overall national objectives of measured growth and controlled expenditures.

The need for all ASEAN countries to attract foreign investments and have better access to foreign markets cannot be over-emphasised. Up to now, we have been acustomed to depending on the markets of industrial nations, particularly the United States and EC countries. Japan, which has been relatively a closed country, is being pressed by the United State and European Economic Community, as well as by the recent substantial appreciation of their yen currency to seek goods and services from ASEAN. At the same time, we also want to promote a two-way trade with your country. In this respect, Korea should embark on a new set of measures to open up your market to ASEAN-manufactured and agricultural products. Larger Korean economic presence in our countries is also welcomed and encouraged.

I should now like to touch upon the future direction of ASEAN from the regional point of view.

It is true that even though ASEAN cooperation in general, and in the political area in particular, has been more than satisfactory, its achievement in the economic cooperative undertakings has been rather limited. While all ASEAN countries were enjoying a rapid and high growth in the past two decades, the need to promote intra-ASEAN trade and investment did not appear to be too urgent. The general slow-down of our economies and unfavourable economic conditions in the industrialized world, had the effect of changing our fundamental perception and vision. What was then unthinkable and unrealistic, now becomes a reachable and imperative objective.

Soul-searching exercise is being conducted in all ASEAN capitals The starting point is that the present arrangements in ASEAN economy cooperation are not adequate, and more far-reaching programmes, with proper time-frame, are required to enlarge the "ASEAN market", so as to stimulate internal growth of ASEAN member States and provide an additional and important incentive for foreign investments in the ASEAN region. Preparatory work for the next ASEAN summit to be held in the Philippines in July 1987 appears to be moving in the direction of gradually and substantially reducing tariffs among ASEAN States, so as to create an ASEAN free-trade area before the end of the century.

Whether a relatively free-trade area or a rudimentary form of a common market will emerge in a blueprint from the summit, remains to be seen. The prospects for such a reality were never better. The momentum is there. The question is whether the ASEAN government, and private sector leaders have the fore-sight and the will, to embark on such a cooperative venture which, based on the principles of free-trade and competition, comparative advantage, international division of labour and economies of scales, will in the long run serve the interests of ASEAN countries individually, as well ASEAN as a regional organization.

My own personal view is that such a programme of action for trade liberalisation, to be taken and completed within a period of 10 to 15 years, is likely to be the future direction, of ASEAN. I would, therefore, invite my friends in the FKI to start thinking and planning for a possible future Korean role in the deeper ASEAN economic cooperation and larger ASEAN market.