

Southeast Asia: The Half Miracle

Catching up and Falling Behind in
Southeast Asia, 1960-2010

Abramovitz: The Catch-up Argument

- In a well known paper (“Catching up, forging ahead, falling behind”) originally published in 1986, Abramovitz argued that all countries which are relatively backward in terms of levels of productivity had the potential for rapid advance, and indeed could catch up quickly with the leading economies if they could realize this potential.
- Their ability to catch up was to a large extent determined by their social capabilities, a term he borrowed from the Japanese literature (Abramovitz 1986: 222). These capabilities included the educational level of the labour force, and institutional arrangements which facilitated their openness to the adoption of new technologies, and to competition from both the home and the international economies.

Empirical evidence

- Using the data assembled by Maddison (1982) he examined catch-up among fifteen countries, mainly in Europe and Japan, with GDP per worker hour in the USA. He found a significant degree of convergence in the decades after 1945. The poorer countries had grown faster, and the gap between the rich and poor had narrowed.
- In a later paper, Abramovitz addressed the issue of catch-up growth in a broader context. In particular he addressed the problem of what he termed the 'erratic' growth pattern of the developing countries in Asia, Africa and Latin America. He argued that, if all the developing countries are considered, "there was no simple relation between national levels of per capita income and their growth rates" (Abramovitz 1995: 44).
- Many of the poorest countries grew slowly and some had negative growth in per capita terms. This result was contrary to his earlier findings, and required a more searching examination of both the economic characteristics of the laggard countries and also of their social capabilities.

Take nothing for granted

- Abramovitz (1995: 45) stressed that social capabilities as he defines them develop “in an interactive and cumulative process in which social capability supports economic development and development supports the further advance of social capability”.
- Thus a country which has inadequate capabilities is unlikely to embark on a process of sustained growth, and may succumb to ethnic or religious conflict, which leads to further economic decline.
- On the other hand, those countries which have managed to achieve some economic growth and structural change are more likely to have developed the institutions which facilitate further growth. But nothing can be taken for granted.

The Southeast Asian Story

- By the early 21st century, the ASEAN ten vary widely among themselves. Only two of the ten, Singapore and Brunei, are included in the “very high human development” category in the UNDP Human Development Index rankings. The other eight are spread across the spectrum of development from high to low
- While most of the ten have experienced some improvement in the indicators which make up the Human Development Index (GDP per capita, literacy, educational enrollments and life expectancy) there are very considerable variations between the ten countries in each of these indicators.
- They also vary in their positions in other well-known rankings including those published by the World Economic Forum, Transparency International and the World Bank. These include corruption, ease of doing business and gender empowerment.

Some observations about growth in GDP in Southeast Asia

- First, there was already wide variation in 1960, by which time all had achieved a large measure of self-government and most full political independence
- Second, growth rates have varied considerably over the fifty years from 1960 to 2010. Of the five original founding member states of ASEAN, Singapore had the highest per capita GDP in 1960 and has sustained high rates of growth until 2010.
- Malaysia and the Philippines had roughly the same per capita GDP in 1960, but very different rates of growth over the next fifty years, so that by 2010 Malaysia's GDP was almost four times that of the Philippines, although still much lower than Singapore's. Thailand, which had a lower per capita GDP than either Malaysia or the Philippines in 1960 experienced rapid growth until 1996, in which year it had overtaken the Philippines by a considerable margin, but not caught up with Malaysia.
- Indonesia which had the lowest per capita GDP of the five in 1960, also experienced quite rapid growth up to 1996, by which year it had overtaken the Philippines but was still below the other four.
- Vietnam, Laos and Cambodia all had low per capita GDP in 1990 but there has been quite rapid growth in these countries over the past 25 years. But they were starting from a low base and are still behind the six.

Four questions

- First, two countries which already had relatively high GDP in 1960, Singapore and Malaysia, have both forged ahead over the fifty years until 2010, albeit with some slowdown after 1996. Why?
- Second, Indonesia and Thailand were well behind Singapore, Malaysia and the Philippines in 1960. By 2010 they had caught up with the Philippines but not Malaysia or Singapore. Why?
- Third: why did the Philippines fall behind, given its apparently favourable initial conditions.
- Fourth, why have Vietnam, Laos and Cambodia had quite a good record since 1990, albeit from a low base, but not Myanmar, which has been a growth laggard since the 1950s. Even after the protests in 1988 which led to the departure of Ne Win, the new military government was unable to move the country to a higher growth trajectory.

Pre-colonial developments

- Anthony Reid portrays Southeast Asia in the “Age of Commerce” as a dynamic regions open to trade with other parts of Asia.
- In contrast to much of the Indian sub-continent, and to China, women had more independence within the family and were often able to take gainful employment, especially in markets.
- But from the mid-17th century, Southeast Asia seems to have turned inwards, and population growth was slow. Boomgaard attributes this to high mortality, in turn the result of endemic disease, wars and famines; as late as 1820 population across the region was only about 10-11 per cent of that in China.

High colonialism: 1870-1942

- By the middle decades of the 19th century, Britain, France and the Netherlands were consolidating their territorial claims in mainland and island Southeast Asia. The USA displaced Spain as the colonial power in the Philippines in 1900.
- Colonial policies differed across the regions but all governments were determined to develop the agricultural and mineral resources of the territories they controlled. Foreign capital was important in developing agricultural estates and mineral resources especially oil in Indonesia. Foreign workers were brought in from China and India where there was a shortage of local workers.
- Population growth rapid by Asian standards; population grew faster than in either India or China

Thailand

- Thailand was the only country in the region to avoid direct colonial control although treaties were imposed on Thailand which constrained their fiscal, monetary and trade policies.
- Government was fiscally conservative; this was encouraged by the British financial advisers.
- Fear of foreign control meant that the government was reluctant to borrow, even for projects which would have yielded good returns such as irrigation.
- GDP growth was slow, there was little industrial development apart from rice milling and sawmills. Chinese migrants controlled much industry and commerce, especially in Bangkok.

1940s

- The Japanese imperial army swept through Southeast Asia in 1941/2, and inflicted humiliating defeats on the British and Dutch. The pro-Vichy government in FIC agreed to Japanese conditions in order to stay in power.
- By 1943 food was in short supply and there were famine conditions in Northern Vietnam and parts of Indonesia. Defeat of the Japanese strengthened the nationalist forces in both Indonesia and French Indochina.
- The Americans honoured their earlier promise to give the Philippines full independence (July 1946). But both the French and the Dutch were determined to keep their colonies. The Dutch were worried about the economic consequences of losing the Indies, while the French were more concerned about the effect on other parts of their empire.

Post-1950 developments: Indonesia

- Indonesia gained independence in 1949; harsh conditions were imposed by the Dutch.
- Early in the 1950s, moderate pragmatists were influential in economic policymaking, but they lost influence as economic nationalists became more powerful. After Sukarno returned to the 1945 constitution, budgetary expenditures on the military increased; deficits were funded by printing money and inflation accelerated.
- Little economic growth between 1958 and 1968; poverty probably increased.
- Suharto wrested power from Sukarno in 1966 and embarked on a program of economic stabilisation which led to a return to growth after 1968.

Malaysia and Singapore

- Both the Malayan Federation and Singapore experienced problems through the 1950s, The Communist-led “emergency” was finally defeated but the problem of Malay backwardness was not addressed by the British.
- The Malaysian Federation was created in 1963 but Singapore broke away in 1965. Singapore had to fashion a new economic model while Malaysia without Singapore had to deal with the grievances of the Malay majority.
- Singapore had to develop a new economic model as a small island city state, divorced from its hinterland; many doubted its viability. Sought advice from the Netherlands.
- The NEP was introduced in 1970 to give Malays better access to education and employment in non-agricultural occupations.
- In spite of their problems both Singapore and Malaysia grew rapidly through the 1970s; Singapore attracted foreign investment into both manufacturing and the modern service sector.
- Malaysia began to diversify its export base away from a narrow range of primary products towards manufactures. In the 1980s, Dr Mahathir adopted a look east strategy influenced by South Korea but his strategy of promoting heavy industry had limited success.
- Both Singapore and Malaysia had to focus on improving the skills of the labour force and encouraging the development of technologically more advanced export industries
- This meant some relaxation of the NEP in Malaysia, with greater private sector involvement in education.
- Both countries were less affected by the Asian Crisis of 1997/98 than Indonesia and Thailand. Both have managed to sustain quite rapid growth rates since 2000.

Indonesia and Thailand

- In Thailand economic growth accelerated after Sarit took power; Board of Investment established to promote foreign investment especially in manufacturing.
- Suharto consolidated his grip on power and embarked on the first five year plan of the “New Order” in 1969. Emphasis on infrastructure rehabilitation and agricultural growth.
- Foreign investment accelerated especially in the mining sector.
- In both countries, technocrats were influential: “Four agency system” was effective in Thailand until the late 1980s while Suharto used the “Berkeley Mafia” to draw up development plans and negotiate with foreign donors.
- In both Indonesia and Thailand growth was sustained until 1996.
- In the decade from 1985 to 1995 Thailand was one of the fastest growing economies in the world.

Failure in the Philippines

- When Marcos declared martial law in 1972, USA and Japan supported the move.
- It was expected that the closure of the congress would allow Marcos to implement economic reforms quickly.
- Although there were some attempts at land reform, Marcos became increasingly beholden to a small group of cronies who were given lucrative monopolies.
- Confidence in the business community collapsed and capital flight accelerated.
- Living standards declined and poverty almost certainly increased.
- After Marcos was overthrown, economic growth remained slow for some years, although reforms were implemented in the financial sector and trade policies became more open.
- Philippines less affected by the 1997/98 crisis than Thailand, Indonesia or Malaysia. Growth has accelerated in recent years.
- But population growth is still rapid by Asian standards; population passed 100 million in 2014

Recovery in Indochina

- After the unification of Vietnam in 1975, the government adopted a Soviet-type economic model; the USSR was its only source of aid.
- A process of reform along Chinese lines began in the late 1980s; by the early 1990s foreign investment in export-oriented manufacturing
- Growth rates were rapid from 1995 to 2005, but have slowed somewhat in recent years. Reform of the SOE sector difficult.
- Cambodia also began to open up to foreign investment after 1992; tourism and garment sectors have grown rapidly.
- But Vietnam, Laos and Cambodia are still ranked quite low on many indicators (HDI, TI Corruption Index, WB Ease of doing business etc).
- Vietnam in particular appears to have had an impressive reduction in poverty since 1993, although there are doubts about the data.
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Catch-up in Poverty Measures?

- In recent years planning and statistical agencies across Southeast Asia have been publishing estimates of numbers in poverty.
- Controversies about the result: how are the official poverty lines calculated? How accurate are the survey data which are used to estimate numbers in poverty.
- World Bank and Asian Development Bank have made estimates using a standard poverty line.
- ADB has used \$1.51 per person per day, adjusted for differences in prices

Conclusions

- The evidence suggests that catch-up among the ASEAN-10 has been modest since 1960. Singapore and Malaysia were on top in 1960 and remained well ahead of the rest in 2010.
- Thailand grew fast after 1960 from unpromising beginnings but the gap with Singapore was larger in 2010 than in 1960. Some catch-up with Malaysia.
- Recovery from the 1997/98 crisis was slow in both Indonesia and Thailand; especially in Thailand growth has been slow over the decade from 2003 to 2013.
- Many non-monetary indicators have improved for all countries, but absolute differences are still considerable.
- Catch-up with former colonial powers has also been modest, except for Singapore and Brunei. Slow progress in Indonesia, Vietnam, Cambodia and Laos. The Philippines has lower per capita GDP, relative to the USA in 2010 than in 1970.

What about poverty?

- Still very wide variations in the percentage of the population below the poverty line across Southeast Asia.
- In Thailand and Malaysia, extreme income poverty largely eliminated but considerable inequality still exists.
- Elsewhere poverty still a serious problem; official data claim reductions since the 1980s but percentages still high.
- But there are problems with the data; how accurate are the survey data on which estimates of poverty and inequality are based? Data for Indonesia don't seem to make much sense.

Middle Income Traps?

- The term is now used quite widely in the Asian context: in SEA applied to Malaysia, Thailand and Indonesia.
- Fear is that slowing growth will make catch-up more difficult; at the very least it will take more time.
- Many uncertainties; models which seemed to work in the last three decades of the 20th century now look less convincing.
- China's fast growth both a threat and an opportunity; what will be the implications of China's slowdown?
- Will a genuine single market emerge in ASEAN? What will the implications be for growth across the region?

