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**An Economic Prospective Of Asean**

**By**

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1174

## AN ECONOMIC PROSPECTIVE OF ASEAN

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The member nations of the Association of Southeast Asian Nations, having made considerable strides in the past two decades, are now moving into an era which will pose new challenges. The industrial countries are shifting away from "extensive" economic growth, based on increased consumption of physical goods, to "qualitative" economic growth, based on new products coming from laboratories and research departments throughout the world. Consequently, the economic development of ASEAN countries during the coming decade will depend on their ability to improve and expand their manufacturing sectors.

### I: The Changing Perception of Southeast Asia

I would like to put this outlook in perspective by briefly reviewing how this region has been perceived over the past two decades by Americans who have been involved in international business. I do this not only because I have been asked to give an American perspective for this panel but also because U.S. companies have been very major investors in manufacturing in this region.

In the late 1950's and in the 1960's American businessmen did not refer to "ASEAN" at all, for that institution did not yet exist. Instead, the businessman would refer to "Southeast Asia". In doing so, he referred to a nation with four distinct characteristics:

- it was "poor", a low income region with an ample supply of low-wage, low-skill labor;
- it was thought to be "rich" in resources, whether oil, tin or tropical timber or agricultural products;
- it was viewed as a set of nations more closely related to their former colonial rulers (in education system and in value of the elites though not in government), than to their geographical neighbours;
- it was viewed as "unstable", subject to domestic political turmoil and prone to external penetration by communist elements from the USSR or China.

-2-

Subsequent events have dramatically changed that perception. Over 15 years of strong economic growth have raised incomes considerably. Even the nation with the lowest income per capita, Indonesia, has graduated to the ranks of "middle income" countries by the standards of the World Bank. And the nation with the highest income per capita, Singapore, has surpassed some member countries of the OECD.

As for the resources, while their presence is helpful, it is no longer viewed as a critical requirement for economic progress. Japan, Taiwan, and Korea have demonstrated conclusively that so long as a relatively free trade system exists, a nation can depend heavily on foreign sources of raw materials and develop the economy with export-oriented manufacturing.

Within the region, improved communications and transportation arrangements have created an enormous surge in telephone and telex conversations, in personal and business travel, and in shipments of goods. As a result, American firms commonly locate personnel in ASEAN capitals, especially Singapore or Manila, to serve as managers or sales representatives for the entire region. Quite apart from any common positions on political issues, ASEAN is, in a businessman's sense, a cohesive region.

The change in perceptions about political stability or instability has been dramatic. Since the tumultuous events in Indonesia and Malaysia in the 1960's and in the Philippines in the early 1970's, we have not seen major changes in government forms, or in policies affecting businessmen, for over a decade. There is a recognition of some of the latent tensions, both domestic and diplomatic with which ASEAN NATIONS must contend. On balance, though, the region is usually viewed as among the most stable of any in the developing world.

## II. ASEAN's Prospects Amid a Changing World Economy

Although economic progress enhances the capability for development, it does not guarantee its continuance. Those who rest on their laurels soon discover how quickly such leaves can become dry and prickly. If ASEAN countries are to maintain a strong pace of growth in the remainder of this decade and in the 1990's, they must continue to take measures which meet three, occasionally conflicting, objectives:

- maintaining political and social harmony
- increasing the nation's stock of physical and human capital through investment in infrastructure, private factories and farms, and education;
- encouraging the development of entrepreneurship and creativity.



-3-

Although these objectives are indeed challenging ones, most American businessmen expect ASEAN countries to achieve this. As they do the region's progress will be evident in four dimensions:

- (1) economic growth; (2) industrial change; (3) geographical cohesion; and (4) political stability.

Economic growth rates are expected to be high enough to generate even higher levels of investment. Most medium-term forecasts project growth rates of 5-8 percent for all ASEAN countries except the Philippines. Even the Philippines may be able to regain a 5-6 percent growth path once it surmounts its current financing difficulties. There are four principal reasons behind the conclusion that growth in ASEAN will remain strong in the coming decade.

- Birth rates are either low or declining in all ASEAN countries but growth in the labor force is relatively high because of past birth rates.
- The education system in all ASEAN countries has improved considerably over the past two decades and is certainly good enough to generate a large supply of semi-skilled factory workers and pragmatic farmers plus an adequate supply of more highly trained technical personnel.
- The ASEAN countries can continue to reap sizeable gains from the application to less productive sectors of currently existing technology; consequently, large gains in productivity can be obtained without expensive investment in high-technology equipment and training.
- ASEAN is geographically close to very large economies which continue to achieve relatively good economic growth, namely Japan, China and the United States.

Industrial change in ASEAN economies will result from the relative decline in the importance of energy, metals and agricultural raw materials. This change will place a high premium on improving manufacturing competitiveness. The key source of economic growth for any ASEAN country in the coming decade must be the manufacturing sector.

Agriculture, mining and petroleum will remain important to the economy but won't provide the momentum for growth that they did in the 1970's. Future growth must come from manufacturing, including the development of new industries. Even Singapore, which is not involved in direct production of raw materials, will find little growth in petroleum refining and petroleum-

-4-

related manufacturing or in activities relative to commodity trading and shipment. Consequently, ASEAN countries will need to focus on developing characteristics which expand their manufacturing sectors and increase the competitiveness of their manufactured exports.

Increasing the competitiveness in manufactured exports in world trade will require increased product quality and technical sophistication. Consequently, labor-intensive manufacturing will only be an option for those nations where incomes and wages are low. Among ASEAN countries, Indonesia can follow that path in this decade but such a course would be somewhat risky for Thailand and the Philippines and even more so for Malaysia and Singapore.

The progress in manufacturing industries among ASEAN countries will be increasingly determined by gains in productivity. In the first instance productivity can be raised by increased investment in machinery and equipment. In the longer term, however, improvements in productivity depend on the quality and management of human capital. Consequently, ASEAN nations, and especially Malaysia and Singapore must assess carefully the performance of their educational and social institutions. For example, consider the following 4 aspects of society in which required changes may pose tensions:

- Family: There can be a tension between a need for family stability to maintain a level of output and the need for independence and creativity as industry and pattern of living change.
- Education: Traditional manufacturing requires workers trained to a uniformed high standard of performance and discipline; but emerging industry require independent thinking, a characteristic which may be difficult to develop in traditional education system.
- Corporation: May face a tension between their own desire for loyal workers committed to the company and whatever task a company assigns versus a growing sense of professionalism among their highly trained technical workers.
- Nation: Even the country as a whole may sense some tension as it demand support for the basic national policies but is confronted by demands for improvement in living standards and industrial policies by better educated business and manufacturing leadership.

This decade will also see increased geographical cohesiveness in the ASEAN economy. For the American businessmen the ASEAN region is now a common framework for his planning and economic



-5-

activity. He does not view ASEAN as a formal political unit or a formal economic alliance in the sense that the European Committee is, nor is he likely to do so any time in this decade. Within ASEAN the American businessman is willing to consider several locations as possible sites for investment and work, his choice depending on the particular needs of his activity relative to the features and cost of the major industrial or business cities in this region.

The concept of location will also change with respect to ASEAN countries and their relations with nations outside this region. In particular, we are likely to see even closer ties between ASEAN countries and such Asian neighbors as Tokyo, Hong Kong, Korea, and Australia for work, finance and tourism. We can expect that communications and transport cost will continue to fall and thus promote a tendency for a more intensive regionalism and relatively less reliance on Europe or the United States.

In the political dimension most American businessmen see little change from their current expectations of political stability. With the possible exception of the Philippines, we are unlikely to see any significant change in political systems in this region during the 1980's. We may, however, see slightly greater flexibility in political thinking and discussion within the country political system of a particular country.

### III> Conclusion: The Good Gets Better

As a result, the prospects for ASEAN when viewed from the standpoint of an American businessman is that a region which is now seen as a favorable one for investment and for marketing will become even more so in the coming decade. Economic growth will enhance the region's attractiveness as a market for sales. Increased investment in infrastructure, manufacturing and education will make this region even more attractive as a site for manufacturing production or business services. The ultimate outcome of this trend is likely to be continued rapid growth in U.S. investment in the ASEAN region.