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ASEAN ECONOMIES IN THE 1980s: CHALLENGES OF GRADUATION

Introduction

The ASEAN economies have performed remarkably well during the decade of the 1970s. In terms of real GDP growth over the period 1970-1980, Singapore ranked first with an average annual rate of 8.5%, followed by Malaysia (7.8%), Indonesia (7.6%), Thailand (7.2%), and the Philippines (6.3%). The growth performance of the ASEAN economies seems to be closely related to the performance of their external sector. Singapore's trade (exports and imports) in 1980 amounted to about 4 times its GDP. In the case of Malaysia it was about the size of its GDP. In Indonesia and Thailand, exports and imports amounted to about 47% of their respective GDP, and it was slightly lower for the Philippines (39%).

It is generally believed that the prospects for the ASEAN economies in the decade of the 1980s are equally encouraging. If the momentum of growth *cum* development can be maintained during this decade, by the second half of the 1990s *all* ASEAN countries could graduate into the status of newly industrialized countries (NICs). At present, however, there is in some sense cautious optimism as to the ability of the ASEAN countries to sustain the pace of their development, largely because of uncertainties in the world economy. World economic performance continues to deteriorate. Economic growth in the industrialized countries, which stood at a compound rate of 3.6% per annum over the period 1976-1980, slipped to 1.2% in 1981 and is projected to amount only 0.8% in 1982 (and −1.0% in the United States). Growth in the oil exporting developing countries plummeted to −4.5% in 1981 from about 3.9% per annum in the period 1976-1980, and likewise for the non-oil developing countries from 5.1% per annum over the period 1976-1980 to 2.9% in 1981.[1]

Despite the deterioration of the global situation in 1981, growth in the ASEAN countries was sustained. Singapore managed to have a growth rate of 9.7%, Thailand 7.8%, Indonesia 7.6% Malaysia 6.5% and the Philippines 3.8%. However, continued global recession or slow economic recovery severely affected the payment balances of the ASEAN economies. Larger inflows of external financial resources will have to be secured in order to maintain a reasonably high rate of economic growth.

As shown in Table 1, the payment balances on current account of the individual ASEAN countries deteriorated rather significantly in 1981. During the period 1978-1980, the combined current account deficits of the ASEAN countries fluctuated between US$ 2 to 5 billion. The combined deficit increased dramatically in 1981 to over US$ 10 billion and is projected to reach to about US$ 20 billion in 1982.

Table 1 : ASEAN : Current account balance[a] (billions of US dollars)

	1978	1979	1980	1981	1982[b]	
Total ASEAN	—4.7	—2.7	—4.2	—10.7	—19.0	(—21.5)
Indonesia	—1.4	1.0	2.4	— 1.2		—5.5.
Malaysia	0.2	1.4	—0.5	— 2.9	—4.0	(—5.0)
Philippines	—1.5	—1.7	—2.2	— 2.3	—3.5	(—4.0)
Singapore	—0.8	—1.2	—1.6	— 1.8	—2.5	(—3.0)
Thailand	—1.2	—2.2	—2.3	— 2.5	—3.5	(—4.0)

[a]After official transfer ; figures for 1978-1981 are taken from IMF, *Balance of Payments Statistics* (various issues).

[b]Author's estimate.

A Look At The Pacific Regional Environment

It is an established fact that the major trading partners of the ASEAN economies are in the pacific region, predominantly the United

1. See IMF, *World Economic Outlook*, Occasional paper No. 9, April 1982.

States and Japan. In 1980, about 84% of Indonesia's exports and 52% of its imports were with the United States, Japan, Canada, Australia, New Zealand, South Korea, and the other ASEAN countries. The figures for Malaysia were 66% and 64%, the Philippines 67%and 54%, Singapore 54% and 63%, and Thailand 46% and 51%, respectively.

The Pacific region which has been viewed as the most dynamic region economically, may gradually feel the strong pressures resulting from the global economic situation. Despite the growing interdependence among Pacifiic economies, the region cannot be isolated from world developments. With world trade collapsing into no growth in 1981 (in terms of trade volumes), the Pacific economies—whose share in world trade grew significantly over last decade—cannot easily sustain their past performance.

Table 2 : Pacific economies : trade performance (percentage change)

	Exports[a]		Imports[a]	
	1976-1980[b]	1981	1976-1980[b]	1981
Indonesia	20.7	0.9	12.9	24.8
Malaysia	19.6	—13.6	23.1	7.0
Philippines	17.6	— 2.4	16.0	6.9
Singapore	24.1	8.2	21.5	14.8
Thailand	16.9	4.4	20.9	12.1
South Korea	17.8	15.5	20.5	12.6
Australia	10.3	— 1.1	12.7	16.9
Canada	10.2	7.5	8.8	11.3
Japan	14.1	16.1	16.8	1.1
New Zealand	13.2	3.7	11.0	4.9
United States	13.9	5.9	14.3	6.4
World	14.4	— 1.6	15.0	—5.0

[a]In terms of value.

[b]Compound annual rate of change.

Source : IMF. *Direction af Trade Statistics*, Yearbook 1982.

As shown in Table 2, exports of the Pacific economies plummeted in 1981 (and also in 1982), with the exception of Japan. Imports also slowed down in 1981, with the exception of Indonesia, Australia and Canada. Japan, despite its strong export performance, has drastically slowed down on its imports.

Of the 11 Pacific countries only the United States and Japan, the two most important economies in the region, managed to have a surplus in their current account in 1981 (see Table 3). The surplus in the United States resulted from a remarkable performance of its trade in services, and also due to the adoption of deflationary policies. The latter measure was also adopted by Japan. As long as they continue to exercise deflationary measures, coupled with the notorious "non-tariff barriers" in Japan and the strong protectionist pressures in the United States, these two countries will not be in the position to revitalize the world economy, as many quarters would hope. It is even questionable today whether the locomotive theory can be applied. The recent GATT Ministeral Meeting also failed to come up with meaningful solutions.

The current recession, after all, may be part of a longer-term structural adjustment in the world economy and not merely a cyclical phenomenon. In restrospect, the 1975 recession was a short one and easily overcome. The LDCs have played an important role in bailing out the world by stepping up their imports through borrowing. Many LDCs had borrowed heavily and would not be in the position to repeat this for the second time, especially when the cost of borrowing increased significantly. The growth performance of tht ASEAN countries and the Asian NICs remained relatively strong in 1981 and they may still be relatively better off in 1982 as compared to other regions. Many quarters seem to have entertained the idea that the ASEAN countries and the Asian NICs can perform the function of a "mini" locomotive, at least for the Pacific region. The Western Europeans also are actively trying to penetrate into the Asian markets for their exports.

The ASEAN countries may want to sustain a relatively high level of imports to maintain the momentum of their development. Borrowing to finance large trade gaps is only feasible if the prospects for increasing foreign exchange earnings through exports can be guaranteed. The Asian NICs have learnt the bitter lessons of being sanctioned for their remarkable performance, and for graduating into a higher stage of development. They are constantly being pressured to restrain their competitive exports under all kinds of "orderly marketing agreement" schemes. Import restrictions of various kinds already are being felt by the ASEAN countries.

Table 3 : Pacific economies : Merchandize trade, service trade and current account balance (in billion of US dollars)

	Merchandize Trade		Services Trade		Current Account[a]	
	1979	1981	1979	1981	1979	1981
Indonesia	5.90	6.16	—4.95	— 7.43	0.98	—1.23
Malaysia	3.02	—0.33	—1.96	— 2.43	0.99	—2.91
Philippines	—1.54	—2.25	—0.37	— 0.55	—1.56	—2.33
Singapore	—3.11	—6.29	2.14	4.60	—1.01	—1.75
Thailand	—1.55	—2.00	—0.59	— 0.64	—2.08	—2.54
South Korea	—4.41	—2.96	—0.19	— 2.02	—4.16	—4.46
Australia	2.35	—2.39	—4.74	— 5.66	—2.91	—8.44
Canada	3.94	5.83	—8.71	—12.62	—4.19	—5.46
Japan	1.77	20.36	—9.38	—13.67	—8.71	5.07
New Zealand	0.65	0.26	—1.09	— 1.36	—0.54	—1.07
United States	—27.31	—28.02	34.83	41.71	1.46	6.36

[a]Including transfers.

Source: IMF, *Balance of Payments Statistics* (various issues)

Meanwhile, in 1982 and beyond, the ASEAN countries will have to face the problems of financing their current account deficits. In the case of Indonesia, for example, even though merchandize imports may be cut back in line with its deteriorating export performance, the deficits in services trade are likely to countinue to be substantial (see Table 3). In view of recent trends in the movements of capital and the transfer of financial resources, globally as well as in the Pacific region, the challenge to the ASEAN countries looms large.

Of the 11 Pacific countries (Table 3), by definition, only the United States and Japan are net capital exporteres. In 1981, Japan's flow of direct investment abroad (net) amounted to about US$ 4.7 billion and the flow of other long term capital, including ODA, amounted to US$ 9.4 billion (see Table 4). The flow of other long term capital from the United States in 1981 amounted to US$ 8.5 billion. As a matter of policy, however, ODA from the United States gradually declined, especially loans channeled through multilateral agencies. Economic cooperation with LDCs is to be pursued through the private sector. However, direct investment abroad from the United States dropped dramatically from about US$ 24 billion in 1979 to US$ 6.9 billion in 1981. At the same time direct investment into the United States increased from US$ 11.9 billion in 1979 to US$ 18.8 billion in 1981, resulting in a net flow of direct investment into the United States of about US$ 12 billion in 1981.

Table 4 : Pacific economies: Movement of long-term capital (net)[a] (in billions of US dollars

	Direct Investment		Portfolio Investment		Other Long-term	
	1979	1981	1979	1981	1979	1981
Indonesia	0.23	0.15	0.06	0.05	1.03	2.17
Malaysia	0.57	1.32	0.19	1.13	0.16	0.18
Philippines	0.08	0.40	0.01	*	1.12	1.33
Singapore	0.94	1.79	—0.01	—0.01	0.26	0.13
Thailand	0.05	0.28	0.18	0.06	1.24	2.03
South Korea	0.01	0.08	*	0.06	3.05	3.44
Australia	1.37	1.69	0.32	0.06	1.01	4.88
Canada	—0.76	—8.40	2.24	8.84	0.36	0.67
Japan	—2.66	—4.73	—1.25	7.50	—8.72	—9.43
New Zealand	0.05	—0.01	*	*	—0.08	—0.72
United States	—12.11	11.97	—2·20	2.76	—6.02	—8.49

[a]Based on balance-of-payments figures

[b]Less than USS 10 million.

Source: Same as Table 3

In 1981, about half of the total net direct investment outflow from Canada, which amounted to US$ 8.4 billion, was due to disinvestments from Canada. Part of this disinvestments may have found its way back into the United States. Similarly, direct investments by Japanese companies into the United States have also risen remarkably over a number of years.[2] In addition, the rise of investments inio the United States is also due to an upsurge of investments by OPEC countries in real estates and the acquisition of other assets, as shown in Table 5 (see item "other placements").

Table 5 exhibits quite remarkable shifts in the structure of OPEC's disposition of its surplus (petro-dollars). With dwindling surpluses, albeit still at about US$ 80 billion in 1981, but also because of greater sophistication of the money managers in many Arab oil exporting countries, long-term assets have become the preferred investments as opposed to Eurocurrency deposits. In 1981, the Eurocurrency market still grew by about 22%, but the same year saw an upsurge of borrowing by U.S. entities in the Eurocurrency market, amounting to about 41.1% of total borrowing from this market (the share of the U.S. was 2.8% in 1979 and 8.7% in 1980).[3] Other Pacific economies, such as Australia, Canada, Indonesia, Malaysia, the Philippines, and South Korea are major borrowers in the Eurocurrency market.

As shown earlier (Table 4), among the ASEAN countries, Malaysia and Singapore "financed" their current account deficits by larger inflows of direct investments, whereas Indonesia, the Philippines, and Thailand relied on larger inflows of other long-term capital (official and private). Of the total current account deficits of the ASEAN countries in 1981 (about US$ 11 billion), slightly less than US$ 4 billion was financed by direct investment inflows (net) and about US$ 6 billion by borrowing of long-term capital. A combined current account deficit of about US$ 20 billion as estimated for 1982,

2. See Eiji Ogawa, "A Study of Japanese Direct Investment", International Economic Conflict Discussion Paper No. 3, Economic Research Center, Faculty, of Economics, Nagoya University, March 1982.
3. See *World Financial Markets*, Morgan Guaranty Trust Company of New York, November1 982.

and perhaps in the same order of magnitude in 1983, may not be easy for the ASEAN countries to finance. The examination above shows that in terms of both direct investment and other long-term financial resources (official and private), the ASEAN countries may face greater competition from other countries, including industrialized countries in the Pacific region itself.

Table 5 : Oil exporting countries: Disposition of surplus (in bilions of U.S. dollars)

	Total 1973—1980	(%)	1981	(%)
IMF and World Bank	8	(2.0)	3	(3.7)
Loans and grants to LDCs	52	(13.2)	10	(12.3)
Bank Deposits in DCs	154	(39.1)	6	(7.4)
(Direct placements)	(28)	7.1	(—1)	...
(Euromarkets)	(126)	32.0	(7)	...
Other placements	180	(45.9)	62	(76.5)
Total	394	(100.0)	81	(100.0

Source: IMF, *World Economic Outlook*, April 1982.

Financial Flows and Debt Management

The challenge faced by the ASEAN countries is not merely one of how to deal with the much larger magnitudes of external capital requirements, but also of how to cope with the changing structure of external capital supplies. In essence, larger inflows of external financial resources over time are not necessarily worrisome for a growing economy. However, economic growth in the ASEAN countries during the 1970s—which promoted these countries into higher stages of development—altered the structure of external capital supplies to these countries.

An examination of the global pattern of resources transfer to LDCs shows that there is a definite correlation between the structure of supply of external financial resources to and the level of development of debtor countries (see Table 6). It clearly can be indicated that a country has to rely more on capital from private sources, especially from the financial markets, when it moves up the ladder of development. A problem posed to these countries, thus, is that of adjusting to the shifts from a non-market mechanism to a market mechanism in the aquisition of external funds.

In 1979 only one-quarter of capital flows (commitments) to lower-income countries originated from private sources; the share increased dramatically to 50% for lower middle-income countries and further increased to about 80% for higher middle-income countries. Table 6 also shows that for all LDCs the share of private capital increased from about 45% in 1969 to about 67% in 1979, and that financial market plays an increasingly important role in the supply of capital to developing countries.

Table 6 : Structure of external capital supplies to LDCs, 1979 (in per cent)

	Official Creditors			Private Creditors		
Level of Development	Total	Govt.	Int. Org.	Total	Suppliers	Financial Market
Lower-income	87.5	39.0	48.5	12.5	3.7	2.8
Lower middle-income	50.0	26.1	23.9	50.0	8.6	41.4
Higher middle-income	21.2	10.4	10.7	78.7	6.0	72.8
All LDCs	32.9	16.2	16.7	67.1	6.4	60.7
(1969)	55.0	37.0	18.0	45.0	21.6	23.6

a Commitments of debt-creating flows (excludes direct investment and unguaranteed loans contracted by the private sector).
Source : World Bank, *World Debt Tables* (various issues).

Both Malaysia and Singapore belong to higher middle-income countries, whereas Indonesia, the Philippines and Thailand belong to lower middle-income countries. The changes in the structure of supply of external financial resources faced by the ASEAN countries in the period 1970-1980 was quite remarkable, especially for Indonesia, the Philippines and Thailand. As exhibited in Table 7, of total flow of external financial resources to Thailand, the Philippines, and

Indonesia in 1970-1972 only 2%, 14%, and 26%, respectively, originated from private sources. These shares increased to about 42 to 52% in 1978-1980. The decade of the 1980s may see further increases in the shares of private capital, especially from financial markets, in the supply of external capital to the ASEAN countries.

Table 7 : Structure of external capital supplies to countries[a] (in per cent)

		Official Creditors			Private Creditors		
		Total	Gov.	Int. Org.	Total	Suppliers	Financial Markets
Indonesia	1970-72	74.5	58.2	16.3	25.5	20.8	4.7
	1978-80	54.2	30.7	23.5	45.8	3.5	42.3
Malaysia	1970-72	56.2	23.6	32.6	43.8	3.1	40.7
	1978-80	40.7	19.1	21.6	59.3	3.7	55.6
Philippines	1970-72	86.0	64.4	21.6	14.0	0.6	13.4
	1978-80	47.7	14.2	35.5	52.3	2.6	49.7
Singapore	1970-72	57.7	23.1	34.7	42.3	11.3	31.0
	1978-80	34.4	30.4	3.7	65.9	19.1	46.8
Thailand	1970-72	97.8	21.2	76.6	2.2	0.4	1.8
	1978-80	58.6	26.2	32.4	41.4	3.6	37.8

[a]Commitments

Sourcc : Same as Table 6.

The change in structure has a number of implications. The first, and the most visible, implication is the greater debt service burden in view of the hardening terms of borrowing. Expressed in terms of their grant element, loan commitments from official creditors in 1979 carried a grant element of 37% compared to 7.5% for loan commitments from private creditors. The terms of borrowing hardened during the 1970s and are likely to continue in the years to come.[4] As suggested by the *Asian Wall Street Journal*, for the ASEAN countries which in general have become large off-shore borrowers, "the price of money has become a worse problem than the price of

4. The grant element of official loans was 44% in 1973 whereas that of private loans was 4.5% in 1973.

oil".[5] With larger magnitudes of external capital requirements, and especially in view of changing structure of its supply, debt servicing capacity become a major concern for the ASEAN countries.

The external debt, including undisbursed, of the ASEAN countries rose by about 9-fold over the period 1970-1980, from US$ 5.1 billion to US$ 48 billion. Given the magnitude of external capital requirements and the structure of supply which the ASEAN countries have to reckon with, transfer of resources to the countries for the purpose of economic development can no longer be treated as if such capital inflows were not subject to the payments af amortization and interest. The need to "finance" debt service obligations in itself leads to additional borrowing requirements and thereby, steadily increased the level of debt outstanding. It is this prospect which created a lot of apprehensions and ambiguities on the part of many ASEAN countries.

Despite the increase in their outstanding debt, in terms of a number of indicators, the debt problem of the ASEAN countries in 1980 is manageable (see Table 8). The debt service ratio is not higher than 8% (Indonesia), and the ratio of outstanding debt to exports is not higher than 81.5% (the Philippines). Analytical studies which provide operational guidelines for developing countries, especially those that are in the process of graduation from one level to a higher level of development, for coping with ther debt problems are almost non-existent. The few studies dealing with the assessment of debt servicing capacity indicate that the borrowing process is feasible, when the respective country could sustain a relatively high rate of economic growth *and* export growth, as well as on the ability to sustain roll-overs.[6]

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5. *The Asian Wall Street Journol*, October 1, 1981.
6. An examination of the elements of such guidelines can be found in Hadi Soesastro. *Assessing Debt Servicing Capacity of Developing Countries and Implications for Policy : A Survey*. P-6060, The Rand Corporation, Santa Monica, Calif., December 1977.

Tabe 8 : **ASEAN countries: Debt indicators (in per cent)**

	Debt Service		Outst. Debt[a]		Outst. Debt[a]		Reserves	
	Ratio		Exports		GDP		Outst.	Debt[a]
	1971	1980	1971	1980	1971	1980	1971	1980
Indonesia	7.8	8.0	257.8	67.3	37.7	22.5	5.4	185.4
Malaysia	2.6	2.3	29.7	21.5	12.9	13.6	255.2	185.4
Philippines	6.8	7.1	50.3	81.5	9.2	18.2	55.6	62.1
Singapore	0.7	1,1	9.2	5.6	9.3	13.2	699,5	479.5
Thailand	3.2	4.9	28.1	44.0	5.2	11.4	247.5	82.1

a Disbursed only.

Source : World Bank, *World Debt Tables*, EC-167/81, December 1981.

Concluding notes

Two decades of sustained growth and development as experinced by the ASEAN countries have brought these countries into the process of graduating into higher levels of development. The current recession in the world economy has severe effects on the ASEAN countries, whose external payment balances tend to deteriorate. Financing of larger current account deficits may not be easy to manage, especially with the shifts in the structure of external capital supplies.

Borrowing still is an option to pursue since the debt problem of the ASEAN countries remains manageable and favorable as compared to that in other regions, Latin America for example. The feasibility of the borrowing process, however, seems to depend to a large extent on the ability of these countries to sustain economic growth *and* export growth. These also determine the country's ability to sustain a roll-over of debt. A different roll-over mechanism is implicit in the different type of external capital. Project aid (ODA), while often desired due to softer terms, is a more rigid type of financing as seen from the balance of payments point of view. New loans are provided for the financing of pre-specified projects and cannot easily be transformed into free foreign exchange for the servicing of past debt. Where a larger part of external capital is made available from the international capital markets, roll-overs theoretically become a natural process in the external financing of development.

Changes in the structure of external capital supplies are inevitable in the process of development. The challenge faced by the ASEAN countries today is the transformation from being aid-dependent to become "commercial" countries. Only if they succeed in doing so are they truly graduating into higher levels of development.

The rise of protectionist attitudes in many industrialized countries poses grave concerns as to ability of the ASEAN countries to sustain a resonably high rate of export growth which is a necessity to smoothening the borrowing process. As countries move to a higher stage of development, as shown by the experiences of the Asian NICs, they have to cope with a variety of import restrictions. *The dilemma of graduation has become more pronounced in the present global economic environment.*

External balance can also be achieved through larger inflows of direct investment. This seems to be a more desirable option in the present context. Direct investments not only enhances productive capabilities domestically, but may also create two-way trade. In view of the greater competition for direct investment, especially among Pacific economies, a number of measures need to be taken by the ASEAN countries.

Ultimately, the organization and internal restructuring of the ASEAN economies will determine their success in pursuing their national objectives in this greater world economic interdependence. Foreign direct investment can be made a valuable part of the national economy in general and the the national industrial structure in particular. With a planned industrial restructuring, the countries' trade pattern could also improve and thus, promises to assure a graduation process of the economies which at the same time maintains external balance.

Annex I : Growth of exports[a] (in per cent)

	1960—1970	1970—1980
Indonesia	4.0	8.7
Malaysia	5.8	7.4
Philippines	2.2	7.0
Singapore	4.2	12.0
Thiland	5.2	11.8
Low-income LDCs	5.0	—0.4
Middle-income LDCs	5.4	3.9
High-income OPEC	10.9	—0.6

[a]Average annual rate of growth, in real terms, calculated from volume indices of exports.

Source: World Bank, *World Development Report 1982*.