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Southeast Asia

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UNU-WIDER Annual Conference:

“Transforming Economies – for better jobs”

Bangkok, 12 September 2019

Southeast Asia 3 + 3 = 6

- Cambodia
- Lao PDR
- Myanmar
- Malaysia
- Philippines
- Thailand
- (Viet Nam)
 - 3 LDCs, 3 middle income, 3 countries with socialist past, 3 constitutional monarchies, 5 former colonies . . .

Asian Drama: Myrdal's Question

- Does the state have the capability to lead in development?
- [Social Democratic Framework] -
Presumption of state's indispensable role
- His answer – in Asia NO because –
“weak states”
 - (1) limited power and skills in bureaucracy and
 - (2) too much corruption especially on the part of elite.

SEA not supposed to be successful

- State not indispensable / Is The Problem
- State vs. Market ::
- Domestic vs World Prices (Orientation)
- Southeast Asia success due to
 - ? Liberalization reform (Krueger 1992 Kuznets Lectures interpretation of Taiwan and Rep. of Korea)
 - ? Strong state? - Decidedly NO
- Historical interpretation
 - State intervention and wrong prices and corruption undeniable – but why the success?

Paper – 11500 words, tables, graphs

- **Cross-country study by sector**
 - Agriculture and transition from agricultural dependence
 - Industrial development, the state, and private sector (not 'the' market)
 - Openness, trade, and foreign investment
 - Employment, inequality and social development
- **Contrasting policies and performance among 6 as mirror to other 5 countries**

Agriculture and transition out of

- Institutional innovations, not market forces
 - Retreat from collectivization (Socialist Three) / failed land reforms (Philippines)
 - Nationalization / indigenization of colonial enterprises (Malaysia)
 - State support for infrastructure, farm productivity, etc.
- Propagation of high-yielding varieties
- Raise agricultural productivity faster than population growth

Industry

- Repurposing / recalibration of import substitution policies to outward orientation
 - Not through import liberalization (except Philippines) (despite export promotion, Thai effective protection rate stays at 52%)
 - EPZs/SEZs, industrial subsidies and financing, cascading tariff protection
 - Secure and build domestic private sector, instead of through exposing to foreign competition (weak state)
 - Avoiding the dissipation of policy rents by domestic elite ('minority of a minority')
- How does the indigenous private sector respond to policy rent benefits?

Openness, trade, foreign investment

- (EPZ) Platform for labor-intensive manufacturing
 - Relocation of labor-intensive Japanese production from Plaza-Louvre currency revaluation mid-1980s
 - Malaysia, Thailand; later model for others in region and for foreign investors
 - Redeployment into industry of pliant and compliant rural workers (women)

- Razor-edge growth processes: BOP crises
 - Mid-1980s, from debt & global commodity crisis
 - Late 1990s, Asian financial following post capital account opening

Poverty, inequality, social development

- Mix of spectacular reductions in poverty incidence during periods of rapid employment growth and little progress, if not a worsening, in equity
- Elite-driven and affirming growth while reducing rural poverty (labor redeployment)
- Women labor force participation rate
 - Lately Cambodia
 - Equivalent to exchange rate undervaluation (feminist lit)
- Social development not commensurate with economic growth
 - Shortage of engineering skills (Thailand)
 - Middle income trap

Questions for development drama

- Despite not being 'strong states', successful SEA states exhibit relatively better performance despite widespread state interventions, governance weaknesses, and gradualist reform paths
- Large business conglomerates dominate the economic landscape in Malaysia, the Philippines, and Thailand. Linked politically, including through state and military control, large enterprises play a leading role in basic sectors, such as in food and trade, Cambodia, Lao PDR, and Myanmar
- What is the relationship between large conglomerates and the mass of private sector enterprises?
- Nurturing of a rentier incentive structure through industrial policies can be seen as a dimension of their soft state status
- Economics has only one model of the private sector: individualistic π - maximizing

Questions for development drama

- With a weak state distributing policy rents – how to minimize π dissipation and secure reinvestment?
- Crazy Rich Asians: Is individual private sector behavior conditional on social structure and level of development? What role of social, peer, ethnic pressures ?
- Enforcement through clubs as in medieval guilds (Greif, Milgrom, Weingast 1994).
- Are more ‘oligopolized’ private more susceptible to state more suasion?
- How is the Thai private sector unlike the Malaysia private sector, unlike the Philippine private sector?
- Are there different kinds of “private sectors” and thus different impacts of interventionist and/or liberalization policies ?

Questions for the future

- Can elite-dominated policy making place sufficient priority to social development to escape middle income trap?
- Can coddled (and family) enterprises invest sufficiently to move up the global technology ladder
- Will instability from unregulated capital flows trip up Southeast Asia again?

Thank you

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Southeast Asia

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I. Introduction

This chapter examines the development experiences of Six Southeast Asian countries, Malaysia, the Philippines, Thailand, Cambodia, Lao People's Democratic Republic (hereinafter 'Lao PDR'), and Myanmar—here collectively called 'the Six'—fifty years after Gunnar Myrdal's (1968) *Asian Drama*. A companion piece, (Montes 2018), which is longer but with the same structure, presents more elaboration on the data and analyses.

In *Asian Drama*, Myrdal took an unambiguously pessimistic view of Asian prospects for development on the basis of (1) obstacles to raising agricultural productivity and (2) the low perceived level of capability of governments to intervene effectively in favour of industrial development, the latter being a handicap that included extensive corruption at all levels of government. For the most part, the record of the Six defied Myrdal's prognosis, raising agricultural productivity faster than population growth and displaying sufficient state capability to direct change towards a respectable level of industrial development.

The Six comprise a diverse grouping of countries in terms of natural endowments, historical precedents, and politics. Five, all except Thailand, are former colonies. Three—Cambodia, Thailand, and Malaysia—are constitutional monarchies. Three—Malaysia, the Philippines, and Thailand—are long-running market economies. Two—Myanmar and Lao PDR—are formally socialist economies; at the other end of the scale, free enterprise is deemed as the foundation of the Philippines' democratic way of life (Myrdal 1968: 387). Three states—Cambodia, Malaysia (until May 2018), and Myanmar (until 2016)—have been de facto one-party states.

In terms of standard categories, there are two distinct groups within the Six. There are the three middle-income economies—Malaysia, the Philippines, and Thailand—and three least-developed countries (LDCs)—Cambodia, Lao PDR, and Myanmar—sometimes also referred to as the Socialist Three. The Socialist Three spent part of the post-*Asian Drama* period overcoming economic isolation and embargo, but managed to develop and expand the international dimensions of their economies.

A memorable contribution of Myrdal's *Asian Drama* is the idea of the 'soft state', introduced in the 'value premises chosen' section at the start of *Asian Drama*.

Background tables/graphs

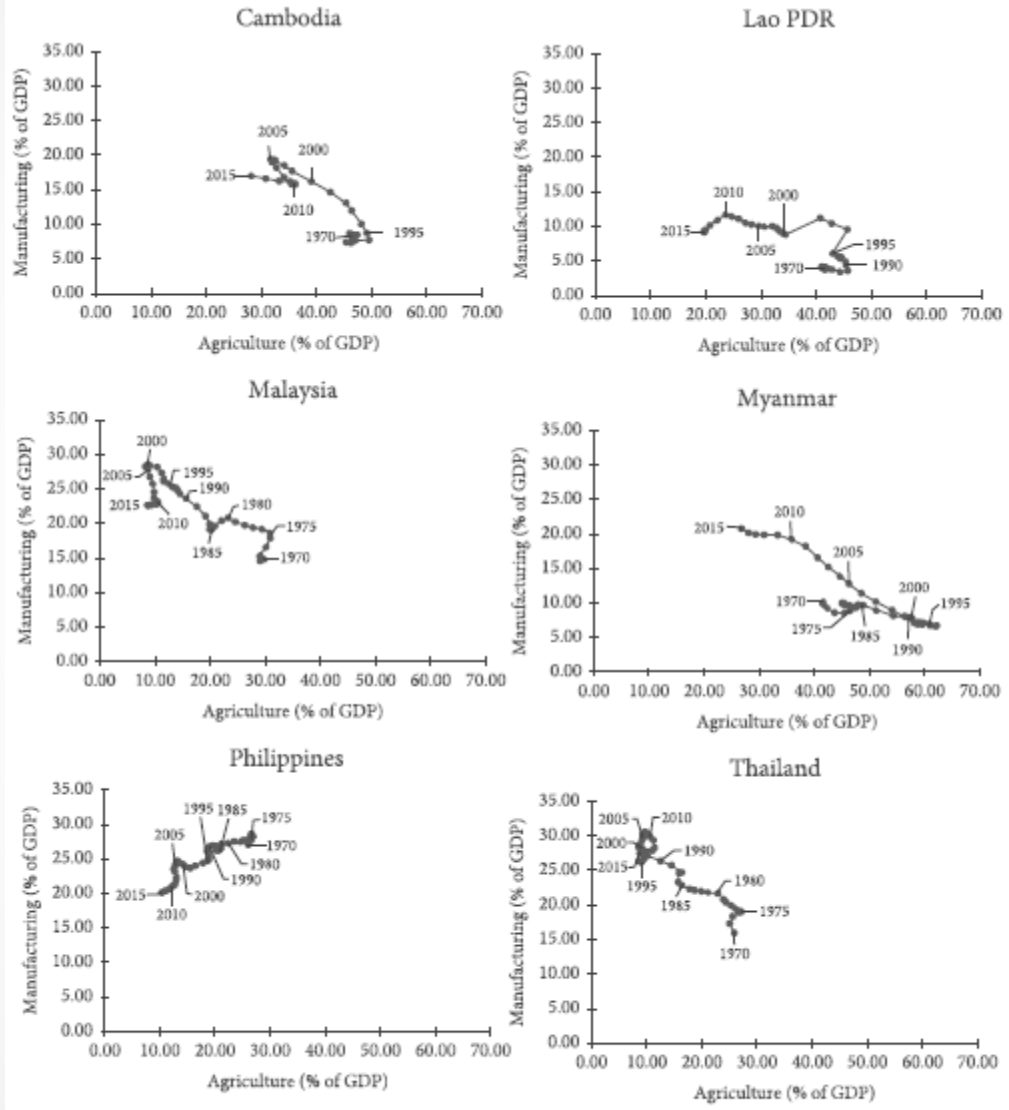


Figure 20.1 Structural change in Southeast Asia: percentage of GDP in agriculture and manufacturing.

Economic growth outstrips ROW

Table 1: Economic growth indicators (per cent)

	Per capita GDP growth ^a		GDP growth rate ^a		Per cent of 'group' ^b per capita income	
	1970–1990	1990–2015	1970–1990	1990–2015	1970	2015
Cambodia	-2.3	5.0	-1.0	7.4	78.0	119.0
Lao PDR	2.5	5.0	4.8	6.9	31.5	220.9
Myanmar	0.5	8.0	2.7	9.1	72.4	122.1
Malaysia	4.9	3.5	7.7	5.7	162.6	198.0
Philippines	1.0	2.2	3.8	4.2	94.1	59.1
Thailand	5.0	3.4	7.3	4.2	90.9	119.4
Developing countries	2.2	3.6	4.5	5.2		

Pace of structural transformation

Table 2: Structural change (sectoral value-added as a percentage of GDP, end-point)

	Agriculture			Industry (manufacturing)			Services		
	1970	1985	2015	1970	1985	2015	1970	1985	2015
Cambodia	46.6	47.0	28.2	13.5 (8.3)	13.6 (8.3)	29.4 (17.0)	39.9	39.4	42.3
Lao PDR	41.6	39.1	19.7	14.5 (3.9)	16.2 (4.0)	31 (9.2)	43.9	44.7	49.4
Myanmar	41.5	48.2	26.8	13.3 (10.2)	13.1 (9.9)	34.5 (20.8)	45.2	38.7	38.8
Malaysia	29.8	20.3	8.6	28.2 (15.2)	39.2 (19.7)	39.6 (23.1)	41.9	40.5	51.8
Philippines	26.0	21.2	10.3	34.9 (27.0)	38 (26.7)	30.9 (20)	39.1	40.8	58.8
Thailand	25.9	15.8	8.7	25.3 (15.9)	31.8 (21.9)	36.4 (27.6)	48.8	52.3	54.9
Developing countries	24.5	16.7	9.0	32.4 (14.8)	36.6 (16.1)	35.6 (21)	43.1	46.7	55.4

Investment performance

Table 3: Investment rates (percentage of GDP)

	Total investment ^a		Private investment		Government investment	
	1970–96	1997–2015	1970–96	1997–2015	1970–96	1997–2015
Cambodia	12.0	17.8	6.3	10.9	5.7	6.4
Lao PDR	8.8	28.6	–	19.8	–	8.8
Myanmar	–	27.3	–	22.2	–	8.3
Malaysia	30.2	24.6	26.2	13.6	12.6	11.0
Philippines	22.1	20.7	17.5	17.6	4.8	3.2
Thailand	29.9	24.9	22.7	17.8	7.2	7.1

^a Total investment is gross domestic capital formation.

Export performance

Table 4: Exports of goods (as a proportion of GDP)

	1965	1975	1985	1995	2005	2015
Myanmar	–	–	–	–	31.5	18.3
Lao PDR	–	–	2.3	17.6	20.2	19.2
Philippines	12.1	15.4	15.0	23.6	40.0	20.1
Cambodia	12.1	–	–	24.8	49.1	47.3
Thailand	14.2	14.8	18.3	33.3	58.6	53.7
Malaysia	41.8	41.3	49.5	83.3	98.7	67.2
Low income	–	–	16.7	19.0	18.0	15.9
Middle income	9.2	12.9	14.7	18.0	28.1	20.6

Razor-edge Balance of Payments

Table 5: Cumulative 10-year current account balances (percentage of GDP)

	1975	1985	1995	2005	2015
Cambodia			(5.1)	(4.3)	(8.0)
Lao PDR		(5.7)	(8.2)	(4.8)	(5.1)
Myanmar				(0.7)	(0.3)
Malaysia	(2.0)	(4.3)	(3.6)	8.2	9.0
Philippines		(5.1)	(2.9)	(1.2)	3.41
Thailand	(0.7)	(5.4)	(5.5)	1.9	3.0

Note: figures in parentheses are deficits, other figures are surpluses.

Poverty reduction

Table 6: Poverty incidence (percentage of population, national estimates)

	1975	1980	1985	1990	1995	2000	2005	2010	2015
Cambodia							46.7	22.1	
Lao PDR					42.6	35.7	30.2	26.0	
Myanmar							48.2	42.4	32.1
Malaysia		34.1	20.3	15.1	8.7	6.7	5.0	3.1	0.5
Philippines			44.2	40.0	34.3	33.7	26.0	25.9	21.6
Thailand	48.6	37.7	43.0	27.2	13.9	14.2	9.4	7.8	9.6

Source: author, based on data from the World Bank's World Development Indicators, the Asian Development Bank, Warr (2004), and country sources.

Mobilization of female labor force

Table 7: Ratio of female to male labour force participation rate (percentage, national estimates)

	1970	1975	1980	1985	1990	1995	2000	2005	2010	2015
Cambodia						98.7	94.3	89.4	93.5	
Lao PDR						97.2	99.0	99.3	96.0	
Myanmar				49.5	41.5	46.1	50.6	55.2	59.8	64.3
Malaysia			49.4	53.6	56.0	53.0	58.2	57.4	60.5	67.1
Philippines	43.6	51.9	30.2	59.7	58.1	59.7	60.2	62.3	64.0	64.8
Thailand	83.6	62.8	87.2	87.1	87.0	79.4	80.5	81.3	79.6	78.4

Source: author, based on the World Bank's World Development Indicators.

National social protection programs

Table 8: Existence of national statutory programmes and health financing

	Cambodia	Lao PDR	Myanmar	Malaysia	Philippines	Thailand
Medical care	∞	✓	✓	Ω	✓	✓
Sickness	None	✓	✓	Σ	✓	✓
Maternity	Σ	✓	✓	Σ	✓	✓
Old age	∞	✓	∞	✓	✓	✓
Work injury	✓	✓	✓	✓	✓	✓
Invalidity	∞	✓	∞	✓	✓	✓
Survivors	∞	✓	∞	✓	✓	✓
Family allowances	None	None	∞	None	None	✓
Unemployment	Σ	∞	∞	Σ	Σ	✓
Total health expenditures						
Total (percentage of GDP)	5.4	2.9	1.8	4.0	4.6	3.9
Out-of-pocket (percentage of total health expenditures)	61.8	38.2	71.3	34.9	52.0	13.1

None: no statutory programme anchored in national legislation; ✓ at least one programme anchored in national legislation; Ω medical benefit in kind without statutory programme anchored in national legislation; Σ limited liability via employers' liability under the national labour code (includes company sick leave and severance payments); ∞ programme has yet to be implemented

Poverty reduction

Poverty reduction