

EMERGING  
ECONOMIC  
SYSTEMS IN ASIA

A political and economic survey

Edited by Kyoko Sheridan

ALLEN & UNWIN

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# Contents

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First published in 1998 by  
Allen & Unwin  
9 Atchison Street  
St Leonards NSW 2065  
Australia  
Phone: (61 2) 9901 4088  
Fax: (61 2) 9906 2218  
E-mail: [frontdesk@allen-unwin.com.au](mailto:frontdesk@allen-unwin.com.au)  
Web: <http://www.allen-unwin.com.au>

National Library of Australia  
Cataloguing-in-Publication entry:

Emerging economic systems in Asia.

Bibliography.  
Includes index.  
ISBN 1 86448 297 4.

1. Asia—Economic conditions. 2. Asia—Commerce.  
I. Sheridan, Kyoko.

338.950

Set in 10/11 pt Sabon by DOCUPRO, Sydney  
Printed by South Wind Productions, Singapore

10 9 8 7 6 5 4 3 2 1

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## 5 The ASEAN economies: growth and change in newly emerging socio-economic systems

*Bruce McFarlane*

The apparent success of the ASEAN countries in attaining record and sustained rates of economic growth and the deepening of the industrialisation process in South-East Asia has attracted a great deal of attention and praise. However, two more fundamental issues remain to be further explored: the looming barriers to future acceleration of the growth rate of GDP in individual ASEAN countries and the nature of the new socio-economic systems emerging in this most dynamic sector of the world economy.

More specifically, this chapter will ask the following questions:

- 1 What have been the main features of the historical development of the ASEAN region since the founding year, 1967?
- 2 What goals were set at the formation, for each country and for the region, and how much have they been revised and/or fulfilled?
- 3 In the individual member states, how have the rather successful economic outcomes been related to their decision-making structures and to their legal-political and ecological environments?
- 4 What are the political problems emerging in the ASEAN states that might slow both the internal dynamics of growth and the trend to economic integration which has been sought by leading ASEAN politicians?
- 5 Are the political and governmental institutions within ASEAN (and prevailing levels of graft, nepotism and corruption) as they are today congruent with the ambitious goals and economic targets that have been set for early next century (for example, in Malaysia and the Philippines)?
- 6 Is the political culture within the ASEAN states changing quickly enough to serve more adequately the new socio-

economic systems that are emerging in the transition period up to the new century?

## HISTORICAL EVOLUTION OF THE ASEAN BLOC

The regional grouping known as ASEAN, founded in 1967, became more important in the 1980s and 1990s. Originally conceived as a diplomatic bloc based on anti-communism, it has played a major role in giving political space to Indonesia and Thailand and international prestige to Singapore and Malaysia. The Philippines, tied tightly to the United States until 1991, gained much less politically and economically from ASEAN in the twenty years after its founding, partly as a result of weaknesses in its political structure and a heavy indebtedness to foreigners which was allowed to grow without being properly funded.

### Aspirations of the ASEAN bloc

A series of goals for the region was observable from the earliest days. These objectives included the rapid expansion of defence forces; opposition to Asian national liberation movements in China and Vietnam; increased inter-ASEAN trade; and steadily deepening economic integration.

ASEAN has been forced to modify and change its defence and foreign policy stances. Singapore and Thailand, formerly antagonistic towards and critical of China, have drawn closer to China. The victory of the Vietnamese in the US-Vietnam war rendered military intervention by the ASEAN states irrelevant. This was followed by a period in which Thailand and Singapore led a militantly anti-Vietnam stance (although trade between Singapore and Vietnam was proceeding apace all the time). The Philippines and Indonesia maintained cordial relations with Vietnam, a position that was eventually adopted by Thailand at the time of the Choonhavan government, setting off a chain of events which led to Vietnam's entrance to ASEAN as a full member in 1995.

### Integration goals

From the beginning, ASEAN officials and politicians identified a limited number of 'civilian' objectives which accompanied the overwhelming emphasis on military issues in the 1960s and 1970s. One of these goals was closer economic cooperation, the meaning of which at that time was left deliberately vague. As the religious and political tensions between the individual member states (e.g. between Thailand and Malaysia, Thailand and Singapore, Indo-

nesia and the Philippines) were overcome gradually, and a sort of unity became apparent, especially after 1980, these objectives became more concrete in character. One was to promote mutual tariff reductions between the member states; another was the desirability (on economic grounds) of having only one or two major heavy industry plants (petrochemicals, fertiliser, steel) to serve the whole of ASEAN instead of one in each country.

As background to measuring the degree of movement towards economic cooperation (and the further stage of regional economic integration), it must be remembered that a number of rather specific factors propelled ASEAN to a new position as a dynamic sector of the world market. These factors must be clearly understood if 'integration' within ASEAN is to proceed as successfully as ASEAN expected from its successive ministerial meetings after 1980.

The first factor was the exceptional rate of structural change in the form of industrialisation achieved by Singapore, Malaysia and Thailand between 1960 and 1994, as well as accelerated industrialisation by Indonesia after 1986, and the recovery of the Philippine economy in the 1990s.

The second factor concerns the restrictions which have been exercised by the United States to limit exports by these ASEAN countries into North America, and also the barriers and other trade difficulties that these countries encounter in their relations with the European Community. The third element consists of the Japanese factor. Japan finds in the ASEAN area, especially in Thailand, Singapore, Malaysia and Indonesia, growing markets for its industrial goods. Given that Japan has become the most important producer of capital goods, exports of ASEAN countries sustain these imports from Japan—even though the lack of investment by Japanese companies in the area creates an increased demand for imported Japanese goods as far as the technology of machine tools and machinery in general are concerned. (This issue is explored further in the penultimate section below.) A problem that has arisen for a large section of this trade is that Japan has used Australia as a major raw materials supplier, so Japan does not represent a strong market for the raw materials coming from Indonesia and Malaysia. At the same time, Tokyo has tended to be rather vulnerable in its aid and trade policies towards the Pacific Rim because of pressures from the United States and frequent threats to unleash a trade war. Thus we have witnessed the formation of certain opinions about Japan and its impact on ASEAN growth prospects which can be summarised as follows: without active coordination among the ASEAN countries it will be impossible to maintain the present processes of ASEAN growth and accumulation. In other words, investment will slow down

because of pressure coming from the United States and the blockages set up by the European Community. Simultaneously, ASEAN members could remain in a position of dependency in terms of the development of machinery imports and technology transfer coming from Japan.

The first of the politicians to raise this issue of ASEAN economic integration was the Malaysian Prime Minister, Mahathir, who suggested the creation of a free trade area in Asia to include ASEAN, but to which we should add South Korea, Taiwan, Japan, China and eventually also the countries of the Indo-Chinese peninsula. The basic assumption of the Malaysians was that it is absolutely necessary to consolidate a wide coordinated market if ASEAN countries want to gain a bargaining strength vis a vis the United States and the European Community. These themes have been discussed at various summits of the foreign ministers of ASEAN. There is also a corpus of academic work, to which the financial press has relentlessly referred, which has canvassed the future economic allegiance of ASEAN (East Asia Analytical Unit 1995). However, the perception of the problems of inter-ASEAN trade and ASEAN integration varies from country to country, which is largely a reflection of the difference in the respective levels of achieved industrial and political development. Malaysia and Singapore have consistently supported a policy of transforming ASEAN into a free trade zone in a relatively short time. The Philippines has favoured a more modest change, fearing for the viability of its textile and apparel industries in the face of Thai competition while Indonesia's closer relations with Japan and its thirst for heavy industry projects has meant that it has dragged its feet on ASEAN-wide industry specialisation in these areas. Indonesia and the Philippines are still preoccupied with the development of sectors working in very protectionist ways, judged in Asian terms.

It is interesting to note that Thailand has, so far, in the political evolution of ASEAN, played a limited role and this is due to the confusion which is still dominating the country after the series of *coups d'état*. It seems also that, contrary to Malaysia, Singapore and Indonesia, the construction and industrial expansion undertaken by Thailand in the 1990s entered a phase of uncertainty, with many problems of infrastructure, public education, public health and the environment yet to be solved.

It is precisely these differences in attitudes of the economic officials of ASEAN nations which, since 1986, has prevented, at the level of ministerial meetings, any basic agreement being finalised about the form and content of regional cooperation.

Because these themes have been continually raised within ASEAN, they have contributed to a shift of the discussion from

**Table 5.1 Growth rate of GDP in ASEAN (% per annum)**

	<i>Base year</i>	<i>1971-80</i>	<i>1981-90</i>	<i>1991-94</i>
Singapore	1985	7.9	6.3	6.1
Malaysia	1978	7.8	5.2	8.1
Indonesia	1983	7.7	5.5	6.4
Thailand	1972	7.9	7.8	8.0
Philippines	1985	6.0	1.0	1.7
Vietnam	1989	—	6.1	7.5

*Source:* Asian Development Bank, *Asian Development Outlook* (1994).

the issue of an Asia-Pacific Economic Co-operation Forum sponsored by Australia and the United States, to the actual modalities of economic integration among Asian countries.

#### STRUCTURAL CHANGE AND RAPID GROWTH: ANATOMY OF THE ASEAN ECONOMIC MIRACLE

The background to the political changes discussed above is the operation of two fundamental forces: the accelerated industrialisation and the emergence of new sorts of socio-economic systems inside the ASEAN grouping itself. These two forces form the core of the analysis which follows.

The ASEAN growth performance, dubbed by over-enthusiastic academics and trade officials as an 'economic miracle', is invariably assessed by them in terms of growth rates of GDP. Table 5.1 shows growth rates demarcated into three periods. It is assumed that in each country, excluding Vietnam, a real industrialisation process was already under way.

What we see here are the high annual growth rates, persistently maintained over a quarter of a century, the best performers being Malaysia and Thailand with a 6 per cent plus growth rate annually. It is to the imagination one would have to turn to comprehend the effect of compound growth rates of this order not just on the economy but on the whole structure of social life.

Anyone who visited Thailand or Malaysia in the 1950s and revisited today would find it hard to recognise their surroundings. Accompanying the high growth rates and the industrialisation process has been structural change. A starting point in comprehending this idea is the shift in sectoral shares in total output, as illustrated in Table 5.2.

It is clearly the case from a study of these trends in Table 5.2 that in all the ASEAN members, even in the weakest link—the Philippines—there has been vast structural change. Industry has

**Table 5.2 ASEAN: Changing sectoral shares in GDP (%) as a macroeconomic guide to structural change, 1970–92**

	Agriculture			Industry			Services		
	1970	1980	1992	1970	1980	1992	1970	1980	1992
Singapore	2.2	1.1	.3	36.4	38.8	37.5	61.4	60.0	62.2
Malaysia	—	22.9	16.1	—	35.8	43.9	—	41.3	40.0
Indonesia	35.0	24.4	17.9	28.0	41.3	42.9	37.0	34.3	39.3
Thailand	30.2	20.6	13.1	25.7	30.7	37.4	44.1	48.7	49.5
Philippines	28.2	23.5	22.6	33.7	40.5	35.0	38.1	36.0	42.5
Vietnam	—	42.7	38.2	—	26.3	24.6	—	31.0	37.2

Source: Asian Development Bank, *Asian Development Outlook* (1994).

steadily increased its share of national output, while the percentage share of agriculture has dropped in all countries except the Philippines; this drop is large, and in comparison with European experience (as reviewed in Stone 1983) it is quite remarkable.

By 'structural change', I mean here both the changed composition of total output and the changing relative importance of particular industries in the process of change (Hoffman 1958; Limqueco et al. 1989). This is a rather wider use of the term than is usually found among official economists, who tend to mean by structural change the effects of tariff reductions and deregulatory policies. I believe, though, that the understanding of structural change adopted here links up more usefully with the idea that ASEAN is also undergoing transition to a new sort of economic system. (On which more below.)

Behind the portrait of growth and structural change, there are other factors at work. First, the high rates of investment and saving have ensured an adequate flow of loanable funds for new avenues of both state and private investment in vital industrialisation. (Singapore has the highest investment ratio within ASEAN and the Philippines the lowest.)

Second, high rates of investment have been in large part responsible for the high growth rates of GDP. This also implies that the high investment rates were not dissipated in ineffective investment projects—in other words, internal capital and credit markets and government decision-making processes in the economic sphere were operating effectively.

It should not be forgotten, however, that Tables 5.1 and 5.2 do *not* reveal the story of unchanging income distribution which has persisted amongst all the fruits of the fast economic growth. It is noteworthy that official and semi-official reports (East Asia Analytical Unit 1993 & 1994) do not attempt any serious analysis of this important fact, which has had to be studied by others

(Limqueco et al. 1989). Such reports also lack any attention to the implications for continuance of the trends in growth rates posed by widespread social strife (especially, in the 1990s, in Brunei, the Philippines and Indonesia). It is perhaps not so surprising that they have totally failed to incorporate into their discussions the problems posed by rising public consciousness about the adverse ecological effects of headlong industrialisation under Asian conditions (as discussed in a later section below). But it is truly a surprise that the tense labour upheavals that have accompanied the rapid industrialisation process (Limqueco et al. 1989) have hardly been mentioned.

### THE POLITICAL PROBLEMS IN ACCELERATED ECONOMIC GROWTH

We must remember that ASEAN was founded when the Cold War was intense. Several ASEAN nations (especially Thailand and Singapore) benefited from the US war against Vietnam as suppliers of military logistics. The anti-communist stance of ASEAN nations led directly to intensified industrialisation, due to the atmosphere of political rivalry and tension. This was the essential backdrop for the emerging legitimisation of state interference in the economy and industry.

The main problem for ASEAN researchers is this: on the one hand, it is vital to get data and to interpret the processes at work in achieving miracle growth; on the other hand, most ASEAN states (the Philippines is the exception) are authoritarian systems which discourage criticism. Hence we are now in receipt of all the misleading talk that capitalism in East and South-East Asia is 'specially effective'—because of 'Confucianism' in some and 'strict discipline' in the others—although much of this talk in the elite circles of Singapore, Malaysia and Indonesia is little more than bluster to defend or legitimise the rule of such elites (Chan 1996).

When Lee Kwan Yew visited Manila in 1993 he gave the Filipinos a lecture on the evils of 'too much democracy' and linked this to the Philippines' economic growth rate which, at that time, was the lowest among the ASEAN states. However, he did not refer to 'cacique' interference with democracy, nor to the legacy of the Philippines' experiment (pre-1986) with 'lack of democracy' in the form of the state capitalist model constructed for the personal enrichment of Ferdinand Marcos and his cronies. The pick-up in growth rates since 1993, the decline of the cacique systems of private army control in regional areas, and the move to more orthodox political party competition means that Lee's

assessment was inadequate, while his own model of authoritarianism has also experienced difficulties (a growth rate slump in the early 1980s, and the suicide of the Minister for Development, Teh, after charges of corruption, etc.). Public agencies in places like Singapore and Malaysia exist to fulfil governmental aims, a project made possible by the politicisation of bureaucracies especially at the provincial and/or district levels. In the Philippines, such a politicisation is undertaken primarily to reward political, and especially electoral, supporters. The highest level of political corruption in the Philippines and Thailand is a result of the very heavy expenses of vote buying during elections and the subsequent need to reward backers and to recoup part of the cash outlayed on such vote buying. Behind the outward show of these political problems of democracy, oligarchy and authoritarian regulation of political life, lie social relationships and especially the attitude of the state and of capital to the rights of organised labour.

Although evidence so far is admittedly a bit sketchy, it would seem that Capital and the state oppose the Labour movement savagely in the earlier phases of accelerated capitalist industrialisation (Thailand in the 1950s, the Philippines in the 1970s, and Indonesia in the 1980s are clear examples), but are more relaxed in the presence of higher technology and large numbers of foreign companies bringing with them more enlightened attitudes. Since Capital and Labour need each other, being, after all, two (antagonistic) sides of the same coin (the 'labour process' as Marx called it), this is perhaps not so surprising, and we might speculate that as ASEAN develops over the next twenty years, its member states will come under both internal and external pressure to accept and respect organised Labour. This pressure will come about not only through Amnesty International and other human rights groups concerned about 'disappearances' of union leaders, but also from Capital's own recognition of the benefits to be gained from cooperation with labour unions. (The experience with The Accord in Australia after 1983, which held down real wages, was, from this point of view, a revelation to many individual corporations and employers' groups.)

It is now time to ask where we are at the moment in particular ASEAN member states: to embark on a brief stocktaking of the situation, and explain how the evolution of institutions is affecting the functioning of the socio-economic systems.

### Malaysia

Although the group surrounding Mahathir have kept Muslim fundamentalists at bay, and have thereby checked their threat to

further industrialisation and modernisation, they still implement restrictions on women's working time, launch attacks on 'loafing', and denounce non-conformist social attitudes or behaviours. However, there has been a big leap in confidence compared to the 'New Economic Policy' days of the 1980s, when the Chinese were held back in relation to state education, access to shareholdings and jobs in the government bureaucracy. All the targets and aspirations associated with 'Malaysia 2020 AD' sloganeering reflect the more relaxed attitude in economic decision-making circles concerning foreign investment, export prospects, the poverty line, and competition between Malays and Chinese. More fundamentally, they reflect the successful development of a range of engineering skills and of heavy industries since the early 1970s.

### Indonesia

The regime in Indonesia likes to call itself the 'New Order'. In practice it is an old-style military dictatorship harassing its opponents under the guise of fighting communism. In the process, a relatively small group of military officers linked to overseas investors has accumulated vast wealth. Moreover, as is well known from the research efforts of Jenkins and Robison (Robison 1990), the immediate family of Suharto is a 'business-minded' family, lucky in obtaining government contracts. This has tended to weaken the accumulation process, which has been shared between the local bumipatras, the Chinese and international investors. Splits have occurred between these factions of capital, with some negative effects such as a diversion of funds from productive manufacturing to real estate, speculation and uneconomical large projects. However, a civilian political faction centred around Industry Minister Habibi has achieved notable successes in bringing about structural change which favours heavy industry. (For example, it has successfully developed an aeroplane-building capacity.) With the passing of the elderly incumbents who currently run the 'New Order', it is conceivable that the fortunes of this group will flower and that a more technocratic approach may become more widespread. It is unlikely, however, to curb the present interest in developing engineering industries, and that bodes well for the chances of continuing rapid growth.

### Thailand

The Thai leaders like to claim that they have reached newly industrialised economies (NIE) status and that industrially they are the leaders in ASEAN. That position, however, is taken by Malaysia. It is considered by most experts that Thailand's growth



continues to be supported by a very strong rice economy at the economic base and by an astonishing export record in textiles and apparel. The succession of unstable governments has not damaged the economy as much as one would expect, because of a competent civil service and well-organised, large-scale finance capital in the form of Chinese–Thai finance houses that have been quite willing to invest in industrialisation (Choonhavan 1984), though less active in financing social overhead capital. The recent growth of civil society vis a vis the military and the serious splits opening up within the elite may well be paving the way for more social planning, environmental consciousness and democratic participation in the making of economic decisions.

### The Philippines

A special feature of the Philippines' experience was the attempt to construct a comprehensive, albeit corrupt, form of state capitalism. A chapter of this book is devoted to analysing that process, so here it is sufficient to note that after twenty years of being tabbed the weakest link within ASEAN the Philippines in the mid-1990s has begun to chalk up a few 'tiger's stripes': the economic growth rate of 7 per cent in fiscal year 1995–96, following 5 per cent the previous year, has lifted the growth rate to the ASEAN-wide average. As well, the tax system has been modernised and monetary policy has brought inflation under some sort of control. One key to these successes has been the record of the Ramos regime in loosening the hold of the powerful landed families and regional *mafiosi* on the legislature. While Ramos has promoted his own 'cronies', more of them have been modernisers. A further factor has been the development, since 1989, of a public consensus in favour of economic reform and the curbing of the old politicians and their ways of doing things—prompted by public disaffection with power blackouts and incompetent government of the years of the Aquino administration. The main question marks surrounding the Philippines' evolution and its chances of achieving the ambitious economic targets identified under Ramos's 'Philippines 2000' program are the continuing Communist and Muslim-separatist rebellions and the split that has opened up in the ruling coalition—the Lacas–Laban—and the series of wildcat strikes in 1996 which reflected the extreme social tensions arising from Labour's perception that it has not shared in the fruits of the economic recovery.

### Vietnam

Due to its very recent membership of ASEAN, Vietnam represents a special case and has not been analysed in depth here; it has

been allocated a separate chapter in this book. It is worth recording, though, that the economy has been stabilised following a series of policy struggles over economic reform, and a derailed economic reform in the early 1980s. Since 1992 the GDP growth rate per annum has accelerated to 8.8 per cent, prices are stable and exports are improving rapidly. The decision to solve the fiscal crisis of the state by closing down many loss-making state enterprises and absorbing the expelled workers in the private petty-trading sector indicates that problems are being tackled resolutely. Although Vietnam has rejected a number of pressures from the IMF/World Bank for further economic reform, it is proving that a well thought-out, step-by-step process of reform has many advantages over the 'big-bang', overnight reform approach urged on the former socialist regimes of Poland and Russia. The main barriers to continuing high growth rates would appear to be internal bickering over the role of foreign investment in the economy; the need for changes in the political system to reflect economic base alterations; and the ever-present ecological problems, some a hangover from carpet American bombing and some of the Vietnam authorities' own making.

Looking at the ASEAN-wide political trend, specifically on the political party and parliamentary fronts, it is now clear that the middle classes will want the introduction of Western-style forms of 'democracy'. Continuing industrialisation has brought about the organisation of the middle class, which is important for consumption and import patterns and which has become an agent for political change, most developed in Thailand and Malaysia; emerging now in the Philippines and Indonesia.

### ENVIRONMENTAL AND PHYSICAL BOTTLENECKS AS CURBS ON ACCELERATION IN ASEAN FUTURE GROWTH

There is now a growing literature (Beresford & Fraser 1992; Apichai et al. 1992; Hirsch 1996) on the emerging role of environment restraints and constraints on those who propose the endless acceleration of growth in Thailand, Vietnam, Malaysia, Indonesia and the Philippines (as well as in the West), but the neglected factor in the assessment of economic growth potential is the presence of physical bottlenecks (McFarlane & Acharya 1966). The recent enthusiasm for the ASEAN economic 'miracle' (East Asia Analytical Unit 1992 & 1994) has rather skipped over these awkward constraints on headlong growth and certainly has not analysed their likely effects in any detail.

I want to make it clear at this point that there are both 'natural' and institutional forces at work which create the problems that are to be discussed in this section. Under the first category one starts, of course, with expanded population and ever-increasing internal migration. However, with the development of a vigorous sort of capitalism during the post-1960 period, and coinciding with the period of serious structural change and intensified industrialisation, there are a number of factors at work which are clearly linked to the greed and profiteering that the ASEAN form of capitalism has engendered. It is also important to concede that the 'market socialist' systems of China and Vietnam have experienced similar problems of environmental trade-off, as has now been revealed by specialists in this field (Muldavin 1996; Beresford & Fraser 1992). This aspect of ruthless greed is at its most stark in the case of logging and de-afforestation, but it appears in other sectors as well, and necessarily so, since the logging licences in the forestry case have their counterpart in monopoly control over such crucial intermediate goods as cement (Thailand) or cartel-style control over wage-goods (rice in the Philippines, Vietnam and Indonesia).

#### Environmental barriers to accelerating the rate of GDP growth within ASEAN

In connection with the constraining role of environmental damage or potential damage, the most serious problems being generated by very high growth rates among the economies of South-East Asia occur in the areas of small-scale coastal fishing, land-use and de-afforestation (Ghee & Valencia 1990; Shiva 1991; Apichai et al. 1992; Hirsch 1993; Thompson & Duggie 1996). In all ASEAN countries there is conflict over land-use between governments and their rural peoples. The social conflict thereby generated has been made worse by bureaucratic resource management, most notoriously in the cases of dam building and de-afforestation in Thailand, and de-afforestation in the Philippines, Indonesia and especially in the Sabah region of Malaysia.

As forests are destroyed, so too are 50 per cent of their animals and plants, which are major sources of food and income for the very poorest sections of Asian society. These people have, quite literally, been overwhelmed by the plundering perpetuated by powerful logging and bureaucratic interests. Case studies for this process now exist for Indonesia (Thompson & Duggie 1996), the Philippines (Broad & Cavanagh 1993) and Thailand (Apichai et al. 1992; Hirsch 1993). The social conflicts engendered have already caused the cancellation of dams in Thailand, restricting

hydropower prospects; increased outlays on police and army activities in rural areas, since the disenchanting rural populations have become more sympathetic to the rebels; and parliamentary upheavals. The shifting of the environment issue to the political sphere is bound to curb the excesses built into headlong growth strategies which damage the environment (as well as people's health, which is part of the stock of human resources and damage to which, through pollution, will directly reduce productivity). One should also pay attention to the drives to modernise and industrialise housing and transportation, in Manila, Bangkok and Jakarta especially. The high level of individual and social stress caused by these transitions in the economy has now attracted scholarly medical attention (Jain 1987). Such stress was noticed in Japan some twenty years ago and steps were taken to correct it, but elsewhere in Asia the problem has grown. Indeed, the psychological effect of overcrowding would appear to constitute a new and serious terrain for reducing headlong growth through the negative productivity effects it engenders, being analogous to air pollution in its impact on health.

The implications of what has been written so far in this section are clear enough: as investment rates reach what is socially and politically recognised as a maximum or ceiling, there will be constraints, growing more and more powerful, from the need to slow down the negative environmental effects being generated, which were summarised above. Restraints on the total rate of national investment will mean that further GDP leaps will depend increasingly on the better utilisation of investment. The stage has already been reached within ASEAN where the evolving socio-economic systems, still dominated apparently by logging, oil refining and bureaucratic interests, are no longer able to ignore the spectre of environmental damage as a constraint on their growth plans. The time is not far off when not only scientists and environmentalists, but also official and academic economists, may have to concede that an emphasis on the efficient allocation of resources will inevitably need to be based on new policies incorporating a reduction of valuable genetic resource losses a decreased supply of fresh water pollution of estuaries and coastal waters, loss of tropical forests and associated plant and animal life, and, for the longer run, depletion of atmospheric ozone and climatic deterioration.

#### Physical bottlenecks: A key constraint on ASEAN 'miracle' growth

The background to the physical bottlenecks problem is really quite easy to comprehend. ASEAN, like East Asia, has been experiencing

a steady migration to urban areas which is necessitating huge additional spending on infrastructure projects in water supply, power and road building. While estimates vary, some nations could find themselves involved in spending between 5 and 7 per cent of GDP on these 'social overhead capital' projects.

#### *The bottleneck of clean water shortage*

Since ASEAN is in a monsoon area, it may seem strange to raise this topic. But when one realises that the Pasig (Manila), Whampoa (Shanghai) and Chao Phraya (Bangkok) are dying rivers, one can see that the problem is one of human interaction with water. Pollution via sewage and garbage, as well as chemicalisation of the waterways, has been a strong feature of the period of accelerated capitalist industrialisation.

According to the Asian Development Bank's Water Utilities Data Book, such problems really do exist (Asian Development Bank, 1993) and only more efficient delivery and metering—and a reduction in 'unaccounted for' (i.e. stolen) water—can keep pace with population and urban growth in Asia. In most Asian countries, population is running a little ahead of piped water supplies. An investment of several billion US dollars will be necessary throughout ASEAN. With the possible exception of Singapore, the ASEAN states have insufficient funds available to develop and clean the water supply system, without taking out massive foreign loans.

One country with serious dilemmas about its water supply is the Philippines where, as one writer has put it, there are 'warning bells about an impending water crisis' (Luib 1995). Table 5.3 illustrates the water supply trends in Manila. A continuing source of concern is that while water production and delivery has increased, Manila, where the growth in the workforce and new industry is located, leans heavily on the Angat dam for metropolitan connections. (In rural areas, people also use wells or steal from pipelines rather than pay for connections.) The main problems, besides doing something about the 60 per cent 'unaccounted for' water consumption, are as follows:

- Pipes used to distribute water around Metro Manila are too old to withstand further pressure for outer-area connections (*Manila Business World*, 10 June 1994).
- Although foreign funding accounts for 40 per cent of water supply capital works, new funds are in short supply due to budget constraints.
- The cost of cleaning polluted rivers is astronomical, and there are some 40 rivers that are heavily polluted. (One Danish

**Table 5.3 Water in the Manila system, 1984–93**

Year	Population in area of MWSS (million)	Connections ('000)	Total water output (million cubic metres)
1984	7.44	371.64	667.8
1989	8.70	627.31	888.1
1993	10.57	798.42	932.8

Source: Metropolitan Waterworks and Sewerage System (MWSS).

estimate put the cost of cleaning up and restoring to health Manila's Pasig River at US\$5 billion.)

Difficulty in solving the supply bottlenecks and the investment lag in an area so vital to the health and productivity of the workforce has meant that 18 million Filipinos have no access to regular supplies of safe water. There are no substantial plans scheduling new water projects, despite the fact that an expanding population and improving economic growth both fuel a rising demand.

The World Bank has estimated that overall investment requirements for social overhead capital in the Philippines will be US\$40 billion for the period 1995–2004. Some US\$20 billion of this is estimated for power, but there is nothing in this estimate set aside to secure clean water—this will surely have to be adjusted in the face of the unrelenting pressure of the population and of rural–urban migration.

A more favourable situation exists in Indonesia, when compared to the Philippines, but the government is already aware of clean water security as a looming issue. At present, Jakarta water authorities can supply 16 hours of service per day, and only six cities (so far) are on bottled water. This is due to the general availability of ground water. Even so, some 57 per cent of water is 'unaccounted for' (the same as in Manila), but water management seems fairly good and operating costs are quite reasonable. Singapore, a small island state in a monsoon area, has covered its water supply problem. However, due to political conflict over the building of new dams in nearby Chantaburi province, Thailand has a looming water problem, apart from the advanced state of pollution in the Chao Phraya River which runs through Bangkok and Tonburi.

#### *The bottleneck of energy and electricity supply*

Given the recent high rates of growth of the economies of ASEAN and East Asia, the possibility that a 'brake' might come from physical bottlenecks and energy shortages is very great. An Asian

Development Bank report, in its interesting 'profile' chapter, concedes: 'It seems necessary to encourage developing countries to introduce new technologies and efficient systems, developed by industrialized countries, in their energy conservation efforts' (Asian Development Bank, 1993).

Among the ASEAN nations, one can see a certain concern with supplies of energy and the security of those supplies, but this is not universal. Malaysia has achieved a higher level of self-reliance in energy. By contrast, the Philippine blackouts of the late 1980s were largely the result of the inept policies of the Aquino government, so that electricity growth, like GDP growth, was nil.

The region as a whole will require terrifyingly high infrastructure investment to allow energy supplies to move parallel with the accelerating growth of GDP. The World Bank estimate for the 1990s is \$US6.8 billion.

The Asian Development Bank report also raises the issue of the pattern of consumption for energy. In 1990, residential and commercial sectors took about one fifth, averaging over the countries (the range is 11 to 33 per cent). Industry, not unexpectedly, took the lion's share of electricity.

An additional task for ASEAN policy makers is identifying ways to widen energy bottlenecks in the face of medium-term rushes in demand. The efficiency with which energy is supplied is clearly a key determinant here, and is one way of expanding output. This involves tapping economies of scale and transport, better calculation of the benefits of rival sources of development, etc. 'Effectiveness of investment' in terms of power and water supply overhead capital outlays is therefore inescapable. It involves mobilising skills, borrowing funds and improving management, as well as ASEAN governments being innovative in their regulatory mechanisms and actions.

Malaysia, it may be reported, has been foremost in organising private sector involvement in power and water. The Philippines, perhaps having learnt from the disasters of the Aquino Presidency, has decided to privatise parts of the water supply system (Luib 1995), and has plans to carve up the water supply franchise in Manila into separate areas, with the aim of comparing levels of service. The Philippines' power supplies are also being reorganised: the roles of generation and distribution are being split in an attempt to encourage more private investment in the sector. (The orthodox economists recommending the changes argue that, since the cost of capital is higher for private sector operators than for government departments and managements, private firms must deliver productivity gains.) Improved demand management and economising on consumption is another, equally important, way

of ensuring a stable energy balance. The need is to link demand management to ecological concerns quite explicitly, noticing the greenhouse gas danger as a factor promoting the urgent demand for policies impinging on the demand side, including pollution taxes and petrol taxes.

## THE ECONOMIC ROLE OF THE STATE IN ASEAN COUNTRIES

In other chapters of this book it is noted that vigorous but intelligent state intervention has played a major role in restructuring the economy, boosting exports and accelerating economic growth. In particular, it has been suggested that East Asian governments such as Japan, Taiwan, Hong Kong and South Korea have seen 'strong states', relatively free of corruption or cooperation of the state with rent seekers, commercial vested interests and self-serving bureaucratic groups.

To what extent does this picture apply to the ASEAN region? The answer to this question centres around two main issues:

- 1 To what extent do South-East Asian states remain involved with rent-seeking, rent-capital interests and the encouragement of a 'primitive accumulation of capital' which includes these features, as well as straight-out corruption? In other words, is there less 'relative autonomy of the state' in ASEAN compared with East Asia?
- 2 Are fundamental interventionist strategies, proven to be successful for promoting overall economic growth in the East Asian case (Wade 1990), present or lacking in the South-East Asian states?

### Primary accumulation processes within ASEAN states

In the Philippines, the period after 1970 was dominated by President Marcos's attempt to construct a 'model' of a particular kind to serve vested interests (Manapat 1991). The main beneficiaries were his cronies and the Presidential family. In Indonesia, the same comment applies to the regime of Suharto (Robison 1986 & 1990). In Malaysia the 'new economic policy' of the 1970s, the successful development of heavy industry, local capital financing of projects and government promotion of infrastructure suggest that a more modernised economy had been achieved through more orthodox financial institutions. However, it should be noted that at a meeting of the ruling political party, UMNO,

the Prime Minister, in an emotional speech, denounced the prevalence of 'money politics' (Stewart 1996).

In Thailand, both the Chattichai civilian government of 1987-91 and the new government elected in 1996 were brought down by graft and corruption allegations. It is true that this first phase of industrialisation was undertaken for the benefit of 'rent seekers'; it was only later that movement to bourgeois democracy brought checks and balances. However, we should not accept the view that the regimes referred to above, some undoubtedly tainted by graft, did not carry out industrial transformation, accelerate capital formation and promote economic growth—they did. However, the mechanisms were different—they were not those of orthodox bankers or those promoted by the World Bank and neoclassical economic diehards. A number of ASEAN governments dared to allow a substantial period of import-substitution; they maintained controls over private foreign investment (and prohibited foreign ownership of land); they initiated heavy industry (Marcos's industrial 'major projects' (Lichauco 1993) and Malaysia's heavy industry program in the 1980s and 1990s (O'Brien 1990).

#### Effectiveness of activist state intervention

It will be conceded, I suppose, that South-East Asian governments are less efficient than East Asian states, judged solely from the economist's point of view, given South-East Asia's superior holdings of natural resources. The two main reasons advanced for this belief that have credibility are the following:

- 1 The implementation of development planning in East Asia was carried out by well-trained cadres of bureaucrats assisting the objectives of a development-minded state apparatus, although this aspect loses some of its importance when one notes the role after 1979 of World Bank technocrats (e.g. in the Philippines).
- 2 The chosen strategies of development included export orientation, which South-East Asia found more difficult to implement than its northern neighbours, since South-East Asia faced more formidable trade business in the US market and lacked the degree of integration with Japan and the North-East Asian region taken as a whole. We can illustrate this by comparing Japan's attitude to investment in South-East Asia with its activity in East Asia (see the discussion below).

#### FUTURE CONSTRAINTS ON ASEAN'S ECONOMIC PROSPECTS

On the assumption that miracles do not go on forever, it is possible to list likely limitations on the future course of the ASEAN 'economic miracle'.

##### Developments in North-East Asia

What will impinge on economic events in South-East Asia in the near future are the rapidly changing trade and investment patterns (and growth) in the northern extremities of the East Asia region. They include the international division of labour which includes specialisation in production; new regional trade blocs and other institutions of economic integration (e.g. the two Koreas with Japan, the growth triangle of China coast-Taiwan-Hong Kong); a strengthening market economy within China; and the aggressive marketing and export promotion of Taiwan and South Korea.

##### Japanese direct investment in ASEAN

Foreign direct investment has up to now played a significant role in the development of ASEAN industries and in the implementation of ASEAN's export promotion policies (East Asia Analytical Unit 1994). Joint ventures, acting with foreign-affiliated companies, accounted for 80 per cent of Singapore's manufacturing exports in 1988, 60 per cent in the case of Malaysia, 35 per cent for the Philippines and more than 20 per cent for Indonesia (East Asia Analytical Unit 1994, p. 94, quoting Japanese statistics).

In the case of Japanese attitudes and strategies adopted towards ASEAN, the *leitmotif* is very transparent: trade comes first; Japanese direct investment follows. In the first decade of ASEAN's economic spurt, Japan had already taken over a quarter of the region's trade (Wong 1979, p. 9), surpassing the United States and the European Community. On the Japanese side, ASEAN gradually became important—in 1976 about 10 per cent of Japan's total exports went to ASEAN, which supplied 12.6 per cent of Japan's total imports. Progress was restricted, however, by Japan's trade barriers against industrial imports from ASEAN. As a result, Japanese direct investment was overwhelmingly in Indonesia which did least to annoy the Japanese on the trade front (McQueen 1991). A sharp rise in Japanese direct investment by volume to ASEAN occurred after 1981, at a time when Japanese direct investment to Asia as a whole was dropping.

In the 1970s, food processing and textiles attracted Japanese direct investment in ASEAN. In the case of chemicals and sintering

**Table 5.4 Japanese investment in major Asian countries, 1982–93**

	FY 1982		FY 1986		FY 1988		FY 1992	
	Value	% of Asian share	Value	% of Asian share	Value	% of Asian share	Value	% of Asian share
<i>ASEAN</i>								
Indonesia	410	30	250	11	586	11	1 676	26
Singapore	180	13	302	13	747	13	670	10
Thailand	94	7	124	5	859	15	657	10
Malaysia	83	6	158	7	387	7	704	11
Philippines	34	2	21	1	134	2	160	2
<i>NIES</i>								
Hong Kong	400	29	502	22	1 662	30	735	11
Taiwan	85	6	291	13	372	7	292	5
South Korea	103	7	436	19	483	9	225	4
China	18	1	226	10	296	5	1 070	17
			(1)		(0.6)		(3.1)	
Other	7	1	16	1	41	1	236	4
Asia	1 384	100	2 327	100	5 569	100	6 425	100
Total	. . .		22 320		47 022		34 137	

*Notes:* The figures in brackets refer to the percentage share of China in Japanese total overseas investment. FY refers to fiscal year, from 1 April to 31 March of the next year.

*Sources:* The figures between 1982 and 1988 are from Fan Yongming (1992), p. 179; the 1992 figures are from Australia–Japan Institute (1993), p. 4.

aspects of the iron and steel industry, increased pressure from the anti-pollution agencies forced Japanese direct investment offshore to the ASEAN area if Japanese firms wished to carry out this sort of production. In the 1980s a spectacular internal boom in Japan meant that more speculative activity also took place in ASEAN. The Stock Exchange was awash with loanable funds (after 1989 in particular). The speculative bubble burst at the end of 1990, and Japanese foreign direct investment has decelerated in some sectors since then. Before 1985, many manufacturers involved in Japanese direct investment were relocating to ASEAN and were seeking to assemble for the local market because of import tariffs and other measures taken against Japanese exports (Phongpaichit 1990). Relocation to ASEAN was also fuelled by: (a) rising wage levels in Japanese manufacturing; (b) a sharpening of Japan's anti-pollution laws and penalties compared to the relative leniency in ASEAN countries; (c) the appreciating Japanese yen which made it much cheaper to install new capacity in ASEAN; and (d) a high percentage of trade surpluses to GDP, leading to 'excess' savings levels for the profits available within the Japanese economy itself.

The picture given in Table 5.4 means that despite recession in Japan in the 1989–95 period, Japanese direct investment in ASEAN has been solid. The factors driving it have changed somewhat after the years of rapid internal Japanese expansion, but geo-politically, it is vital for Japan to maintain a strong ASEAN (Izawa 1993), and a powerful influence can be exerted in the form of Japanese direct investment. The result is that after 1985, Japanese direct investment in ASEAN also maintained its share in total manufacturing Japanese direct investment abroad at 9 to 10 per cent, at a time when the share of other Asian NIEs dropped markedly.

This means that, within the Asian region as a whole, ASEAN plus China have become dynamic areas of reception and likely to remain so, since ASEAN and China have not yet reached the point on a 'reverse Kuznets' curve where growth of per capita incomes will tend to decelerate. It is important at this point to list some of the wider political economy elements in the ASEAN–Japanese direct investment relationship, as they will be the key to future prospects of ASEAN importing growth processes from Japan. They include:

- Japanese direct investment and trade relationship;
- recycling of large external accounts surplus of Japan (Healey 1991);
- patterns of division of labour;
- technology transfer and its contribution to accelerated industrialisation of ASEAN members; and
- the perception of various interest groups within the ASEAN countries, and within Japan itself, concerning the experience of Japanese direct investment in ASEAN.

While some of the experiences listed above have been positive, there were problems in relation to two countries—Indonesia (Sadli 1990) and the Philippines (Ofreneo 1991; Ofreneo 1992; Constantino 1989).

A major threat to the continuing processes of aid and investment being received in ASEAN would arise if new Japanese direct investment now flowing strongly to ASEAN nations were to be redirected to China or even to Eastern Europe and Russia.

#### Transfer of technology from Japan to ASEAN

As well, exports from Japan to ASEAN of capital goods and technology have, until now, been crucial in getting the technical-physical aspects of ASEAN industrialisation going, as shown in Table 5.5. However, with China now attracting a major share of Japanese investment abroad, and a possible slowdown of Japanese

**Table 5.5 Japanese percentage in total machinery imports of ASEAN, 1990**

	%
Malaysia	70.5
Philippines	61.6
Singapore	71.0
Thailand	64.5
Vietnam	65.4

Source: Healey (1991).

exports of capital, South-East Asia will get much less impetus from Japan for its accelerating industrialisation. Offsetting this change could be the overall impact of a burgeoning regional growth rate which would integrate ASEAN further into the international division of labour being shaped by the transnational corporations of Japan and the NICs. The strength of this influence will depend on whether ASEAN quickly turns into a tight regional entity. So far, conflicts of interest within ASEAN have prevented it from emerging as a powerful new trading bloc.

The 'Pacific Rim' economy built in the 1950s and 1960s was such that the United States was willing for a period to operate as a heavily import-dependent economy absorbing a huge volume of inputs from Japan, North-East Asia and South-East Asia. This was especially useful to South-East Asia in the 1970s when the rest of the world was suffering from a slump.

## CONCLUSION

In an ideal analysis, this chapter would have dealt with a range of issues needed to fully illuminate the ASEAN story. I suppose that more could have been said about the nature of the ruling regimes and the social bases of the ASEAN states; as well, these topics needed to be approached from the angle of external pressures and not only the internal alignment of forces. This has not been possible within the present confines, but remains for some future project. I would also like to have delved more into some of the issues that were only mentioned, including such extra-territorial factors as mass migration, free trade zones, internal corporations, and foreign investment's effects on local capital markets and industrial relations between Labour and Capital.

Nevertheless, I have tried to conform to the idea that this chapter should not only cover 'nuts and bolts' issues involved in economic growth and structural change which have been seen by

economists as the major and most dominating aspects of ASEAN over the last 30 years, but to focus as well on the issue of the kinds of socio-economic systems that have emerged in ASEAN over this period, as well as the environment in which decisions affecting whole populations have been taken, economic behaviour and the vexed question of whether ASEAN has met its social goals.

Given the existence of current and potential bottlenecks in such sectors as clean water and energy supplies, and given the growing consciousness of ecological costs as growth accelerates, it is astonishing that journalists and government reports continue to speak of the ASEAN economic miracle as if it could go on forever. But capitalism is an unstable, not a stable, system. ASEAN capitalism has always been characterised by crises and by frequent puncturing of growth rates (McFarlane 1988). This is unlikely to change.

As to the nature of the emerging socio-economic systems, there is, of course, a considerable difference as between the nation-state members of ASEAN: the almost anarchical freedom available to people in the Philippines may be contrasted with routine suppression in Indonesia and the stifling surveillance of the individual in Singapore, to say nothing of the implementation across Malaysian society of Muslim attitudes (on top of the 'anti-loafing' campaigns). It is to the political sphere that one must look in the medium term for clues on change, and especially sudden changes in systems. It would appear from recent political history that splits in the elite may be required to allow enough political space for accelerating industrialisation with reasonable economic efficiency, as well as for ensuring the respect for the 'capitalist rules of the game' and for the middle class's thirst for democracy. Whilst Indonesia and Burma are the most obvious examples of this contention in the late 1990s, we saw the same thing operating in Thailand in 1987-90 and then being renewed after the democracy monument massacre, while the emergence of Ramos' more familiar mixed economy in the Philippines of the 1990s was only possible after the Aquinos led the middle class in the overthrow of Marcos, and then Ramos split from the Aquino forces.

A major emphasis in this chapter has been on the simple point that 'miracle' growth rates so far achieved by ASEAN cannot go on forever, as they will be restrained by the need to limit environmental damage and by physical bottlenecks. It is conceivable that the latter might be reduced or even overcome by the 'miracle of market forces' or by improved functioning of the newly emerging systems in ASEAN; however, the environmental issue will not go away—it is unbudgeable and will necessarily dominate future ASEAN thinking about the role of high growth rates in achieving societal goals.

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