CHAPTER 5

Conclusion

In the pre-colonial times, Southeast Asia was home of the borrowed sinic cultures, as well as from Hinduism and Islam, and a point of convergence of trade routes from the North and West. In the first few post-colonial decades, when the entities of Southeast Asia had little in common before the establishment of ASEAN in August 1967, it was convenient to define Southeast Asia simply as the geographic region South of Northeast Asia and East of South Asia. The traders from South and Northeast Asia have found opportunities in the Northeast Asian region especially China, Japan and Korea. In fact both the region are characterised by vibrant diversity in cultures, economic bases and political institutions, making a region-to-region analysis vulnerable to challenge. On the other hand, since the states of South East Asia have begun to interact in regional multilateral institutions, a regional approach is becoming tenable. The visible manifestation of regionalism in ASEAN and the extension of ASEAN so as to suit the member nations interest, including ASEAN Regional Forum (ARF), the Asia-Europe Meetings (ASEM) and the East Asia Co-operation (ASEAN+3). In the East Asian region apart from South east Asia, no particular institutionalisation happened because of the division imparted during the Cold war from the communist regimes of North Korea and China, through the flamboyant democracies of Mongolia, Hong Kong, Taiwan and South Korea, to the mature and reverse engineering empowered Japan.

Until the 1980s, there was not a single institutionalised linkage between the seven nations though subsequently APEC, ARF, ASEM and ASEAN+3 emerged and sub-regional arrangement also sprung up, such as the Four-Party and Trilateral talks on the future of Korea. In fact after the World War II, the urgent need of the newly independent states of Southeast Asia was economic growth in a sustained manner and with assistance from foreign capital.

Further, the anti-colonial rhetoric and state-interventionist policies of the governments in the newly independent states proved not conducive for the new capital. Singapore and Philippines were the exceptions, because they adopted liberal investment regimes and actively invited foreign investment. Indonesia’s oil reserves and its vast forest resources were attractive in spite of the government’s nationalistic policies and European, US and Japanese investors entered into deals with state
monopolies to exploit these resources. By the late 1960s, the domestic unrest was curbed and the region's government started concentrating on economic issues rather than security. Economic nationalism and import-substituting industrialisation, gave way to the idea of export promoting industrialisation as the viable alternative to sustainable economic growth. The constant rise of prosperity of Japan and the 'newly industrialised economies (NIEs) – South Korea, Taiwan, Hong Kong and Singapore, asserted the logic of their sustained growth on export promotion. A large influx of FDI followed in the South East Asia nations from Britain and other European nations, along with United States, Japan and NIEs. Singapore as a part of ASEAN provided not only a destination for capital and a hub of the financial institutions to feed the neighbours countries.

The changes in the FDI started happening in the 1980s with the FDI coming to the South East Asia with Indonesia, Singapore, Malaysia, Thailand, the Philippines and Vietnam in the descending order. With the inclusion of Myanmar, Laos and Cambodia in the ASEAN, a trickle-down effect happened in these countries also. All the three eventually adopted capital investment laws, but their economies have not proved so attractive yet to foreign investment because of the fragile political stability in these countries. Small Chinese enterprises operate in the manufacturing and marketing sectors of these countries, as throughout Southeast Asia, but do not contribute substantially to economic development.

In the 1980s, the ASEAN's economic growth was not significant because of the specialisation of the ASEAN countries in the identical primary products and predominance of raw materials in exports. This in a way led to the reduction in export bills of the ASEAN because of the lack of collective bargaining. During the same time the world economy as going through slack period of growth and in order to get out of its transnational investment was thought as an alternative. Though the ASEAN countries had not much developed infrastructure, but still they were preferred by Japan, the US and the NIEs because, they were better than most of the developing countries which were trying to come to terms with their economic requirements after colonial rule. Most of the favourable steps were taken by the ASEAN to attract the FDI like Basic Agreement on ASEAN Industrial Projects 1980, Basic Agreement on ASEAN Industrial Joint Ventures 1983, ASEAN Agreement for the Promotion and Protection of Investments 1987, ASEAN Investment Area Agreement 1998, etc., development of economic boards and investment by the government for developing
One of the major advantages of the ASEAN was the availability of cheap and skilled labour and in order to cut the production costs, the NIEs started investing in the ASEAN countries. The investment profit nexus was positive for the NIEs and this led to increased investment in ASEAN. Its not only the ASEAN's FDI policy which attracted the FDI but also the compulsion on the part of the NIEs to shift their production units because of labour strikes, evaluated exchange rate, competition with the Japanese and U.S. products, cutting down of transaction costs and achieving cost efficiency.

In case of the FDI, what is most sought by the investing firms is the proximity of their production units. Hence, most of the multinational companies invested heavily in the ASEAN countries. The positive repercussions in the ASEAN were increase in employment, sustaining of the domestic production, transfer of technology at low cost and mushrooming of domestic allied industries to the MNCs. In a more wider perspective, Japan shifted its production units to the NIEs in search for cheap labour for labour intensive industries and the NIEs did the same in case of ASEAN. The rising protectionism in Europe and the U.S.A. i.e., Generalized System of Preference in a way, forced the NIEs to look for new markets for their products. In order to justify their market infiltration in the ASEAN, they started investing in the ASEAN members countries. Also, land costs in the NIEs were very high and in order to cut down on rent most of the FDI flowed in the ASEAN.

The collective bargaining of the ASEAN and the NIEs led to economic growth of both the regions. The compatibility of the ASEAN and the NIEs led to the transfer of technology from the NIEs to the ASEAN in the form of subsidiary units of MNCs, training of personnel, R&D programmes by private firms and the setting up of auxiliary units for the main production units. This gave the ASEAN "catching-up" bonus and boosted the production levels of domestic units much above the levels of other developing countries in Asia and Africa. In the development of ASEAN, the NIEs have played the role of "catalyst" with Singapore acting as a entrepot and Hong Kong as a major financial centre for the ASEAN. In case of Brunei, which is more of a self contained economy with large percentage of exports being fuel, it already had a very high per capita income.

The induction of Vietnam led to diversification of the ASEAN interests and extension of the ASEAN's area of influence. With Vietnam emerging out of its economic backwardness caused by successive wars, the ASEAN can play an effective
role in integration and development of South-east Asia. Also Laos and Cambodia are slowly coming to terms with the new vistas of globalisation and regional integration. Myanmar in order to get constructively engaged in the development of the country is liberalising its staunch political stance against democracy leader Aung San Suu Kyi.

The NIEs have transformed themselves from capital importing to capital exporting economics. Taiwan and Hong Kong have become the largest investors in Vietnam while Taiwan became Japan's equal as the largest investor in Malaysia. Taiwanese investors urged by their govt. to reduce dependence on the mainland China, had invested large amount in the Southeast Asian nations principally in Malaysia and Indonesia. The Chaebols, the conglomerates of South Korea, began investing in sub component and other labour intensive manufacturing and through the 1990s South Korea had invested large sums in Southeast Asia, around one fifth of all its investment around the world. Overall, South Korea, Singapore, Taiwan and Hong Kong provided nearly one-fifth of Southeast Asia's new capital in 1990s.

China, traditionally a capital importing country has played the least significant role in investment in Southeast Asia, with the exception of a small number of state trading companies and banks established more for diplomatic rather than economic reasons.

Overall, by the mid-1990s more than one-fifth of the ASEAN exports went to Japan and another one tenth or more to the NIEs Singapore, South Korea, Taiwan and Hong Kong. A similar pattern has appeared in trade with South Korea, which imports labour intensive electrical components and oil and exports parts, finished manufactures and chemicals. South Korea thus earns a surplus from all its partners in South-east Asia except Indonesia and Brunei. Taiwan and Hong Kong trade along similar lines and the asymmetry is compounded by dependence on capital and aid from North-east Asia.

In South-east Asia, Japanese aid remains an indispensable source of financial and technical resources for the poorer countries of South-east Asia and their governments continue to welcome it while negotiating to improve its quality and reduce their indebtedness. Taiwan and South Korea have also offered concessionary loans and technical assistance to governments in South-east Asia. South Korea has followed the model of Japan by offering infrastructure projects to be executed by its own firms. Taiwan's aid has been more modest towards less expensive, low-key
technical assistance projects often in agriculture. Hong Kong has not become a significant donor except in education and training exchanges.

Most of the ASEAN states are also full participants in multilateral intergovernmental organisations, most prominently, the UN, the World Bank, the Asian Development Bank, and World Trade Organization (WTO). The adherence to "one China policy" as they recognize only the People's Republic of China and have presented a common front against proposals to admit Taiwan to the UN. Though Taiwan features prominently in most of the economic reports as a separate economy yet its existence is negated by the South-east Asian nations so as to appease China.

In the early phase of 1950's and 1960's few regional organisations which came into prominence namely SEATO, ASPAC faded into history after the communist threat subsided. It was only after the Vietnam war and a reduction in Cambodian crisis, ASEAN's importance increased as it sponsored economic co-operation and later, co-ordinated its member's policies in relation to the Cambodian civil war and Vietnamese invasion. ASEAN also generally attracted foreign approbation as the most promising indigenous regional organisation in Asia. In the early 1990s, ASEAN initiated its "post-ministerial conferences" (PMCS) with major external partners including Japan, China and South Korea and it emerged as a fusing point of the two regions and in the mid-1990s ASEAN took another plunge to link the two regions by organizing the ARF. Its Asian members, other than the ASEAN states themselves, include, Japan, China, South Korea, Mongolia and from the Year 2000 North Korea but Taiwan and Hong Kong have been excluded. The main objective of ASEAN is to use a filtering extension so as to get the best advantage with regard to trade and foreign direct investment from the affluent nations of the region. Taiwan and Hong Kong has been purposely kept out of any regional organisation ambit so as to constructively engage China in development process of South-east Asia.

Though an organisation like East Asian Economic Caucus (EAEC), proposed by Mahathir Mohammad of Malaysia in 1990 but the idea was opposed by the United States, Canada, Australia and New Zealand which were excluded, by Japan, because of its special relationship with the United States, and by Singapore, because of its protectionist overtones. Then came ASEM so as to include EU in the greater charter of ASEAN. Thus the EAEC survives as a caucus within the larger ASEM, APEC and WTO grouping. The greater dimension of ASEAN-NIE cooperation is coming as "ASEANT+3" summit which started since November 1999 and the major points of
discussion at the summit covered issues such as intra-Asian financial cooperation, currency swaps, and an Asian Monetary Fund which however was capsized by the IMF. In the post cold war period, ASEAN's appetite for Asia-Pacific issues derived from South-east Asia's relative stability. The floating of ARF has in a way has its strains on the functioning of APEC because of overlapping membership. In fact, APEC does not rely on ASEAN as its "driving force" APEC is not chaired exclusively by ASEAN countries, nor does the ASEAN consensus necessarily determine the position which its members take in APEC. ASEAN's enlargement has underscored the loose relationship between the Association and the APEC since Cambodia, Laos and Myanmar will not be admitted before 2007.

ASEAN could in a way assert its identity in the Asia-Pacific because of its existence as a separate successful entity which is having trade links with Hong Kong SAR and Taiwan. Though overtly ASEAN does not entertain Hong Kong and Taiwan in any institutional linkages but still the two countries matter in the economic policy making for ASEAN. As far as Singapore is concerned being a member of ASEAN as well as an NIE it works as a dual stage for the managing territory for the FDI in the South-east Asian region as well as the barometer of the state of things in the ASEAN. The emergence of East Timor as an independent entity and thus the possibilities of engagement of ASEAN also exist in the near future.

Even ASEAN's decision to admit Myanmar rested on a strategic calculation about Chinese influence and an effort to bargain with Chinese on the Spratlys and Paracel island dispute. The existence of NIEs as a trading conclave and homogenous cultural extension has served a great deal for ASEAN as it has created interest among the western nations to seek a foothold in the region both diplomatically as well as economically.

After the 1997 financial crisis, the US engagement is indispensable to the region, anti-US sentiment may be a useful political tool for government struggling with economic adversity. While ASEAN enlargement has reinforced existing practices, aspirations for a closer community among some of the original members appear to demand a different solution. The constructive involvement between ASEAN-NIEs may herald a new era in the prospects for North-South and South-South co-operation. In fact ASEAN-NIEs cooperation would in a way narrow the gap between developed countries and developing countries. The stratified development and sectoral engagement between the two like as in textiles, electronics,
automobiles, footwear, toys etc. This sort of portfolio investment might increase the employment prospects and economic growth both. That is the reason that in the ASEAN Investment Area liberal tariffs and regulations are extended to the non-ASEAN members even.

In case of India, the ASEAN-NIEs co-operation signify that there can be a coordinated development through export promotion rather than import substitution. India's economic growth was above many of the ASEAN countries in the 1970's but because of the socialistic pattern of society and high tariffs, the economy could not develop to its fullest. This led to a comparative disadvantage in the growth terms for India and also lack of FDI coming to the country otherwise India could have been a viable alternative destination for the FDI from NIEs and the GDP growth of India would have been far better than as it is today. The fact is also that in few of the sectors like cotton textiles, electronics and toys India has been a competent competitor for the South east Asian nations but the bargaining power of ASEAN has been better than India. On the other hand, the financial crisis proved that though India is vulnerable to such shocks but because of its integrated banking system and a financial infrastructure working on checks and balances have acted as shock absorbers for the country's financial backbone.

There are also two dimensions to India's new relationship with ASEAN. First, the trade and investment aspect, second, the foreign policy and strategic dimension. Clearly, India's economic relations with some are more developed than with others. China and India, despite its bilateral problems, are now both ASEAN dialogue partners and participants of ARF. Indeed, in terms of power politics, the engagement of the two largest nations in the world along with the US, Japan and Russia, might help create a regional balance of power in East Asia and the Asia-Pacific region as part of the global balance that includes the EU.

In the overall perspective, it is imminent that both ASEAN and NIEs governments guided their economies. The member nations of ASEAN at the initial stage of their development, faced a scarcity of talented people, a lack of development funds, technology and information, as well as a lack of natural resources. They developed long-term targets by using indicative economic plans and by selectively using industrial policy. Government intervention did not alter the market mechanism, but rather supplemented it. The private sectors were the principal agents in economic activity. Since NIEs adopted outward looking trade regimes international conditions,
particularly international prices, have guided its production and business practices. The remarkable co-operation between the government and the private sector was seen clearly when a country was confronted with an external shock or crisis. The Vietnam war was considered to be a positive event for Korea, Singapore, the Philippines and Thailand since it gave, momentum to an export boom. The currency appreciation against the U.S. dollar was an advantage to NIEs and even Japan in their FDI expansion. Negative external shocks were also utilized by East Asian countries as an impetus to reform their economic structures. Taiwan and Korea had to rely more on domestic savings and had to secure other sources of funds for development after the U.S. decision to decrease its aid. The first and second oil crises prompted East Asian countries to develop and use energy saving and oil substituting technology.

The new dynamics of zonal cooperation became a boon for both ASEAN and NIEs, it also envisaged the role of FDI and trade in regional development. As investment in the manufacturing sector is one of the keys to economic growth. Similarly, the active engagement and liberal FDI policies have projected the ASEAN in a higher strata of development. After Japan and US, NIEs involvement in ASEAN markets and economy have spelt a boom and rapid development in ASEAN. Such tacit regional alliances would work wonders for the development of a region and the developing countries.