

Economic Recovery in ASEAN

By Yukio Asano

Characteristics of the current recovery

The ASEAN economy bottomed out in mid-1983 and started a recovery on the strength of a world economic resurgence following on the unexpectedly fast improvement in U.S. business conditions. Yet the ASEAN recovery process has been uneven, and its momentum is not strong.

The ASEAN countries may be classified into three categories according to the pace of recovery, as follows:

(1) Singapore is experiencing a rapid recovery, based on improved exports and steady growth in domestic demand.

(2) The economies of other ASEAN countries, excepting the Philippines, are only slightly improved from the heavy recession a year ago.

(3) The Philippine economy has stalled as a result of an external financial crisis reflecting its aggravated debt problems. To this has been added a special element of political unrest caused by the assassination of Benigno S. Aquino last August.

The special characteristics of economic recovery in ASEAN are thrown into relief when compared with the newly-industrialized countries (NICs) in Asia, including the Republic of Korea, Taiwan and Hong Kong. During the 1970s the ASEAN countries attracted world attention due to their high growth power, second only to the NICs, and their political stability. However, in the struggle to pull themselves out of recession, the NICs showed much greater strength than expected as they took advantage of the fast expansion of their exports, in sharp contrast with the



Singapore is enjoying a construction boom.

still sluggish ASEAN countries. Singapore, whose economy is displaying signs of rapid recovery, although a member of ASEAN, is generally considered an NIC.

The difference in the pace of recovery between most ASEAN countries and the NICs may be attributed to the difference between countries exporting manufactured goods and those exporting primary products. The former have been able to ride on the wave of economic recovery in the U.S., spearheaded as it is by consumer demand, but the latter have not been so fortunate. Except for Singapore, where primary products (mostly re-exports) account for only 46% of all exports, the ASEAN countries depend heavily on the

export of primary products, ranging from a low of 63% of total exports for the Philippines to a high of 98% for Indonesia in 1980. In the final analysis, the aftereffects of the prolonged recession triggered by the second oil crisis of 1979 were more serious in countries exporting primary products than in other nations.

Aftereffects of the recession

The serious impact of the recession was reflected in the slow recovery of prices and demand for primary products. This was a result of the low-key recovery of

Yukio Asano, 50, is a senior research officer in the Current Affairs Department of the Institute of Developing Economies. He entered the institute in 1961, and has also served as a research fellow at the University of the Philippines, Cornell University and Brookings Institution.

domestic demand in importer countries, such as Japan and Western nations due to the aftereffect of the recession. It was also reflected in the sharp increase in the external debts of the exporter countries, which was, of course, another recessionary aftereffect.

Looking at these two factors in more detail, it is important to note that the recession lasted longer than previous ones due to measures taken by the United States and other countries to contain inflation. Owing to the impact of high U.S. interest rates and the appreciation of the dollar against their currencies, Japan and West European countries have recovered from the recession more slowly than the United States. This accounts for the equally slow recovery in commodity markets.

The recovery in demand for crude oil was particularly slow, owing to the recession and changes in the energy demand structure. Crude oil prices declined 15% in 1983, dealing a serious blow to such oil-producing nations as Indonesia and Malaysia. Recovery in prices and demand was gradual for other primary products as well. While natural rubber, palm oil and coconut fared relatively well, by September 1983 commodity prices as a whole had risen only 24% over the depressed levels of October 1982. This was a recovery to only 85 from a peak of 100 in 1980, and commodity markets have been stagnant since the summer of 1983. Because of the slow recovery in demand, tin producers have agreed to export controls under an international accord to support the metal's market price.

Year-to-year changes in the value of exports clearly show the impact recession has had on the ASEAN countries. Their exports declined sharply in 1981, at a time when the Asian NICs were still showing fair export growth. By the first half of 1983 NIC exports began to increase sharply, but ASEAN exports were still falling. Of the countries exporting primary products, only Malaysia staged an export-led economic recovery in 1983, owing to the start of natural gas exports and improved exports of natural rubber and palm oil, but also reflecting a steep rise in shipments of electronic goods to the United States. U.S.-bound exports of electronic products are also on the rise in the Philippines and Thailand, where the ratio of manufactured goods to total exports has been rising in recent years.

Already-sluggish exports of primary products have been further affected by droughts and other unfavorable growing conditions since 1982, which prevented some ASEAN countries from taking advantage of improvement in the market for agricultural commodities. Thailand suffered a drop in exports in 1983 because of a poor crop the previous year. The Philippines was also seriously affected by

lean harvests of rice, coconut and sugar. The country is reported to have had to import large quantities of sugar to fill its export contracts.

The other side of the recessionary export slump is the effect it has had on the external debt of ASEAN countries through the deterioration of their current accounts. In pursuing a course of rapid economic expansion in the past, all these countries depended heavily on borrowings from foreign countries. As a result, domestic development investments exceeded their national savings. During the recession, these accumulated external liabilities suddenly became a heavy burden as the plunge in export revenue combined with world-wide high interest rates to erode their current account balances. This dealt a particularly serious blow both to the Philippines, whose economic strength had been eroded by a prolonged slump in its commodity exports, as well as to Indonesia, which depended on crude oil for 80% of its export revenue and 60% of its fiscal revenue. The debt-service ratio in 1982 reached 25% for the Philippines and 22% for Indonesia, both of which had pushed ahead with domestic development by actively borrowing foreign funds.

In February 1983, the Philippines accepted severe International Monetary

Fund restrictions on external borrowing, fiscal expenditures and domestic credit supply as a condition for an IMF standby credit. Immediately thereafter, however, the domestic political situation destabilized even further, triggering serious capital flight from the country. As a result, the Philippines became unable to conduct its foreign currency operations properly and sought a postponement in repaying its external debt; rescheduling negotiations are currently under way. At the same time, debt-service ratios for Thailand and Malaysia have also been rising fast, although the situation is not yet as serious as in the Philippines and Indonesia.

In a related development, public finances in the ASEAN countries have also been deteriorating as the recession drags on. Not only has it become financially impossible for these nations to expand domestic demand by deficit-financing, but they have also reached a point where fiscal retrenchment is their only choice for reducing their external borrowings and curbing imports.

With the exception of Singapore, then, all the ASEAN countries have been engaged in economic adjustment. They have been reducing borrowings from abroad and curbing their imports, while restricting fiscal expenditures, especially capital

Economic Performance of ASEAN

	1976-80	1980	1981	1982	1983	1984
Real GDP growth rate						
Philippines	6.3	5.0	3.8	2.8	1.4	0*
Indonesia	7.9	9.9	7.6	2.3	2.8*	3.5*
Malaysia	8.6	7.8	6.9	5.2	5.6	6.0
Thailand	7.6	5.8	7.6	4.2	5.8	6.0
Singapore	8.7	10.3	9.9	6.3	7.2	7.0
Asian NICs (weighted average)	9.9	4.2	7.1	4.0	7.7*	7.1*
Rate of increase in exports						
Philippines	20.7	25.8	-1.1	-12.7	-1.7	—
Indonesia	25.8	40.5	1.6	-10.8	-3.4	—
Malaysia	28.3	16.9	-11.3	-1.4	14.1**	—
Thailand	24.3	22.8	6.2	-1.4	-11.7	—
Singapore	29.4	36.1	8.2	-0.9	2.4	—
Asian NICs (weighted average)	28.9	23.1	15.0	-0.8	10.7*	—
Rate of consumer price increase						
Philippines	11.7	17.8	11.8	8.5	15*	25*
Indonesia	15.4	15.2	8.5	9.7	11.5	13*
Malaysia	4.5	6.6	9.7	5.8	3.8	6*
Thailand	10.5	19.9	13.4	5.8	4.5*	7*
Singapore	3.7	8.5	8.2	3.8	1.1	4*
Asian NICs (simple average)	11.5	21.0	18.5	7.3	5.8*	5.5*

Notes: 1. Figures for 1982 are actual results; 1983 figures are estimates by respective governments. 1984 figures are projections.
2. The three Asian NICs are the Republic of Korea, Taiwan and Hong Kong.
3. 1983 export figures are actuals for the first nine months.
4. *Current Affairs Department, Institute of Developing Economies
**January-August

Source: Asian Development Bank; Institute of Developing Economies



The financial center in Manila, the Philippines

expenditures, at home. Indonesia, the Philippines, and other countries in the area have been compelled to shelve, postpone or scale-down development projects at a time when ideally they should be stimulating their economies to hasten recovery.

As one step in the economic adjustment process, both the Philippines and Indonesia have lowered the exchange rates of their currencies substantially—the Philippines twice in one year. The impact has not necessarily been good, however. Far from expanding exports as expected, it has raised the price of imported raw materials, leading to higher costs for industries, declining corporate profits, dwindling domestic demand and worsened inflation.

Supporting domestic demand

But while their recovery may lack force due to the laggardly improvement in export demand and fiscal retrenchment, it would be unfair to slight the fact that domestic demand in the ASEAN countries has turned out to be steadier than expected and is preventing a further downturn in their economies.

Singapore in particular has been showing signs of a recovery in exports to the United States beginning in the first quarter of 1983, while its manufacturing industries are heading back up again after a severe slump. The GDP growth rate has exceeded 7%, indicating that the nation's economy is firmly on the road to recovery. Singapore's industrial structure is already fully diversified, enabling construction, banking and other industries to cover for the sagging manufacturing industry. The

country was able to maintain economic growth of 5.5% even at the lowest point in the recession.

Thailand, too, has embarked on a self-sustaining recovery. A fall in oil prices, declining interest rates and increased remittances from Thai workers overseas have acted as a pump primer, revitalizing personal consumption and private-sector capital spending, and compensating for the slump in agricultural exports. An export-oriented recovery is also under way in Malaysia, with increased export revenue and stable prices expected to stimulate consumer spending in the near future. Except for the Philippines, the ASEAN countries are generally expected to see a steady rise in domestic demand.

Future outlook

How will the ASEAN economies develop in 1984? Much will depend, of course, on business conditions in the advanced industrial nations. But assuming that the U.S. business recovery will continue throughout 1984, and that Japan and West European countries will also experience a gradual recovery on the U.S.'s coat tails, economic recovery in ASEAN countries should fall into three categories.

First of all, Singapore may be expected to enjoy higher economic growth in 1984, as recovery in external demand is added to stable domestic demand. Work began on the country's MRT (Mass Rapid Transit System) in the fall of 1983, ensuring that the construction industry will enjoy a boom for the next few years. Meanwhile, an improvement in business conditions is expected to accelerate the restructuring of the Singapore economy which has been under way since 1979. There are already

signs of an upturn in investment and employment.

For most ASEAN countries, however, trends in commodity exports remain a matter of serious concern. Prices and demand for primary products are not likely to recover quickly, given the present tempo of economic recovery in the advanced nations. Oil-exporting countries will continue to try to cover a fall in oil prices with a quantitative expansion of their oil exports, and a recovery in oil prices cannot be expected for the time being. Exports of manufactured goods are also unlikely to increase substantially, owing to the anticipated slowdown in personal consumption in the U.S., the slow pace of recovery in Japan and Western Europe, and protectionism arising from high unemployment rates in advanced industrial nations.

As for domestic demand trends, it is important to note that fiscal retrenchment will continue in all the ASEAN countries except Singapore, meaning that little can be expected from public-sector operations. While financially the basic tone remains easy, except in the Philippines and Thailand, private-sector investment will be constrained by the uncertain business outlook, fiscal retrenchment and import restrictions. Thailand has already switched to a tight money policy to cope with a sudden rise in imports and a deterioration in the current account attributable to brisk investment activities.

The general trend in ASEAN will thus be toward economic recovery in 1984 on the strength of higher exports and steady private-sector demand, but the degree of recovery will not be substantial. The Philippines, for its part, cannot be expected to stage an economic recovery for some time to come because of its strict demand management and import and foreign exchange controls. Moreover, import credit supplies have been suspended as rescheduling negotiations drag on, leading to a fall in production, slumping exports and confusion in the market. Manila is expected to show zero or negative growth in 1984. And while prices in all ASEAN countries are likely to rise somewhat in light of the business recovery, the Philippines could experience higher inflation resulting from economic confusion.

Over the medium- and long-term, the increase in ASEAN exports will not be enough to settle the problems of the more debt-ridden members of the association, and their economic adjustments could take a long time. This will likely cause a further decline in standards of living, which have already deteriorated due to the prolonged recession. This could aggravate the employment situation, menacing political stability, which along with their rapid growth, has been one of the strong points of the ASEAN economies. ●