This book is not a definitive research statement nor yet another account of Asia’s financial crisis. Rather, it offers Southeast Asian perspectives quite at variance to orthodox Western economic thinking. Topics range from macro perspectives of Indonesia’s *Ekonomi Pancasila* and Thailand’s Buddhist Economics, through Malaysia’s Islamic financial institutions, to regional and international perspectives of the remaining ASEAN countries and the IMF/World Bank, all tied up by setting them within a diachronic, historical framework. In so doing, this volume looks to open up challenging and provocative fields of research essential for a real understanding of Southeast Asia and its current economic situation.

ISBN 87-87062-74-7
SOUTHEAST ASIAN-CENTRED ECONOMIES OR ECONOMICS?
Nordic Institute of Asian Studies
Recent NIAS Reports

29. Alain Lefebvre: Islam, Human Rights and Child Labour in Pakistan
30. Mytte Fentz: Natural Resources and Cosmology in Changing Kalasha Society
31. Børge Bakken (ed.): Migration in China
32. Donald B. Wagner: Traditional Chinese Iron Industry and Its Modern Fate
33. Elisabeth Özdalga: The Veiling Issue, Official Secularism and Popular Islam in Modern Turkey
34. Sven Cederroth: Basket Case or Poverty Alleviation? Bangladesh Approaches the Twenty-First Century
35. Sven Cederroth and Harald O. Skar: Development Aid to Nepal
36. David D. Wang: Clouds over Tianshan. Essays on Social Disturbance in Xinjiang in the 1940s
37. Erik Paul: Australia in Southeast Asia. Regionalisation and Democracy
39. Mason C. Hoadley (ed.): Southeast Asian-Centred Economies or Economics?

A full list of NIAS publications is available on request or may be viewed online (see copyright page for contact details).
SOUTHEAST ASIAN-CENTRED ECONOMIES OR ECONOMICS?

edited by
Mason C. Hoadley

NIAS
Contents

Foreword  7
  Michael Schoenhals, Director, Centre for East and
  Southeast Asian Studies, Lund University

Editor’s Preface  9

1 Introduction to Southeast Asian-Centred Economics  11
  Mason C. Hoadley, Lund University

LAND STUDIES

2 Reform Aimed at Realisation of the Indonesian  28
  Pancasila Economic System
  Mubyarto, Gadjah Mada University, Yogyakarta

3 Consuming Islam and Containing the Crisis:  43
  Religion, Ethnicity and the Economy of Malaysia
  Shamsul A.B., Universiti Kebangsaan Malaysia, Selangor

4 The Asian Economic Crisis and the Crisis of Analysis:  62
  A Critical Analysis through Buddhist Economics
  Apichai Puntasen, Thammasat University, Bangkok

BROADER PERSPECTIVES

5 Correcting Maladjustments without Measures  86
  Destructive to Prosperity: the IMF and the Crisis in Asia
  Anders Danielsson, Lund University

6 The Asian Crisis and Economic Cooperation:  113
  Implications for an Expanded ASEAN
  Ramses Amer, Uppsala University and David Hughes,
  University of British Colombia

7 Conclusion  137
Foreword

The Centre for East and Southeast Asian Studies promotes interdisciplinary research and teaching on East and Southeast Asia. Created in 1997 as part of a special governmental initiative, it is responsible for the national coordination of university research on East and Southeast Asia’s rapidly changing societies, economies, and politics. Building upon the existing strengths of Lund University in political science, economics, history, and Asian Languages, the Centre is currently developing new projects of cooperation with scholars in Asia and elsewhere. It maintains a research library and a post-doctoral fellowship programme, hosts visiting scholars, coordinates the Lund University Master’s Programme in East and Southeast Asian Studies, and sponsors conferences and workshops.

The present modest volume – containing the papers from a workshop entitled ‘Southeast Asian-Centred Economies or Economics?’ sponsored by the Centre and held in Lund on 28–29 April 1998 – is a product of one of the Centre’s broader research foci: the political and economic dimensions of the present crisis in Southeast Asia. It is my pleasure to thank all of the participants in the workshop, especially Finn Bergstrand and Christer Gunnarsson (Lund University), Fredrik Sjöholm (Stockholm School of Economics), Laurids Lauridsen (Roskilde University Centre), Samsudin Rahim (Universiti Kebangsaan, Malaysia), and Somboon Suprichai (Thammasat University), as well as numerous undergraduate and postgraduate students who attended the workshop, all of whom contributed to making it such an unqualified success. At the time of writing, plans for a second expanded workshop on the same topic, to be held in Singapore, in April 1999, are already well under
way. This volume, then, is only the beginning of what promises to be a stimulating collaboration between Southeast Asian and Scandinavian scholars – a type of collaboration to which this Centre is deeply committed.

Michael Schoenhals
Director, Centre for East and Southeast Asian Studies, Lund University
Contributions to the present volume originate from discussions with the respective individual authors during late autumn 1997. The plan was to convene a modest workshop at Lund in the spring of 1998 to exchange ideas with a view to developing the subject further. The completed papers thus reflect the respective authors’ thinking at the time of the Lund workshop “Southeast Asian-Centred Economies or Economics?”, which took place on 28–29 April. Minor revisions have been made to accommodate summaries of round-table discussions with both workshop participants and authors. At the same time, the contributions can be seen as timeless in that they are in a deeper sense the product of long-term engagement in the issues involved and will undoubtedly continue to exercise the respective scholars, and hopefully others, for some time to come. Taken as a whole the present volume should be seen, then, as opening up a challenging and provocative field of research essential for a deeper understanding of Southeast Asia rather than as making a complete or definitive research statement. The editor’s own contribution has been limited to creating a forum for the contributors.
Southeast Asian-Centred Economics: an Introduction

Mason C. Hoadley
Lund University

Comprehension of the economic activities in Southeast Asia during the past year or so has been handicapped by the prevalence of *a priori* assumptions. Anachronistic ‘Cold War’ thinking interprets the region’s rejection of socialistic ‘command’ economies – in Malaysia during the 1950s and in Thailand and Indonesia in the 1960s – as signifying a conscious turn to liberal market forms on the western model, a turn for which these countries were rewarded with large doses of Western aid, soft loans, and advantageous foreign investments. The impression of a victory for market forces is strengthened by the introduction and subsequent proliferation of such western economic instruments as the joint stock company, central bank, stock and securities markets, and so forth.

However, fundamental inconsistencies between the appearance of liberal market economies and the realities of the region’s economic activities have been ignored. Departures from the western model include the following: economic power in the hands of Chinese-origin minorities (in Indonesia, for example, up to 70% of GNP is controlled by less than 5% of the population); conglomerates run as extensions of a family business with control over up- and down-stream production links and financed by ‘tame’ banks established for that purpose; the dominance of direct state participation in the economy through state enterprises, partnerships with
Southeast Asian-Centred Economies or Economics?

private businesses, and through foundations whose activities encompass not only extraction of natural resources but also purely business engagements, infrastructure projects, and management of public utilities; financial regulation often in the same hands as those it is intended to control; ‘crony’ or ‘ersatz’ capitalism; large chunks of the economy controlled by foundations or associations belonging to the chief executive, his family, or the military apparatus; and a lack of market forces or competition in awarding public contracts and licenses for lucrative government infrastructure projects. Thus amongst the casualties of the crash of the summer of 1997 must be reckoned the credibility of models or paradigms used to understand and run the region’s economy.

More than a year into the crisis, debate over its causes tends to polarise around two extremes. As exemplified by a feature article in Singapore’s The Sunday Times (29 March 1998), Western liberal economics are pitted against a form of ‘Asian values’. According to a Western liberal economic interpretation, the Asian miracle failed because of 1) reliance on a policy of industrialisation based upon cronyism; 2) too much who-knows-whom (guanxi) instead of professional risk assessment and management; and 3) weak governmental regulation and a lack of transparency in business disclosures during a period of liberalised financial markets. Implicit in this interpretation was also the lack of democratic institutions which the West has often touted as being connected with a sound economy. In short, had Southeast Asia utilised more Western skills and political and economic traditions the crisis would either not have occurred or would have been less extreme.

According to the opposing Asian view, the more important causes were: 1) a massive influx of foreign money resulting from too much openness too fast, to which cronyism may have been a contributing factor, but was not the cause; 2) local governments being unable to control the flow of money, also a result of too much openness; and 3) too much foreign capital demanding investment opportunities in the region,
resulting in exceedingly cheap loans that led to trade imbalances and overvalued currencies. This was exacerbated by the mushrooming of new, inexperienced banks and rendered local economies vulnerable to speculation, thereby increasing the volume of bad loans and poor investments. The article specifically cited the fact that the presence or absence of democracy was not an important factor. Dictatorial regimes such as Hong Kong/China [Singapore itself?] weathered the storm better than those with more democratic institutions. In some cases, *The Sunday Times* added, as in Thailand and Indonesia (though for different reasons), even elected politicians were hostage to the demands of powerful business interests. In short, in this interpretation the crisis was precipitated by too much Western influence, the implicit conclusion being that had the local economies remained more 'Asian' things would have been different, i.e., better. At least as far as *The Sunday Times* is concerned, the two views can be reconciled into some sort of compromise, although a close reading of the article reveals that this is more accurately a capitulation to the brand of Western liberal economics favoured by the government of Singapore.

The debate over models or paradigms is by no means an academic one. Any understanding of a given set of facts obviously depends upon the paradigm used to perceive them. And how one addresses or solves a problem depends upon one's judgement as to what exactly the problem is, as well as what caused it. To use an example from my childhood: what should you do if you are bitten by a dog suspected of having rabies? If the dog did not have rabies, the series of prescribed anti-rabies injections could (needlessly) kill you; if it did have rabies and you do not take the injections, the rabies most certainly will kill you! The growing debate in Asia, Europe, and even the U.S. (including the United States Congress, which dispenses an important part of world organisations’ funding) as to the efficacy of the actions of organisations like the IMF and the World Bank rests in large part on differing judgements as to whether the dog that bit
Southeast Asian-Centred Economies or Economics?

the economy is rabid or not. In short, much turns on whether there is too much Western influence and too little in the way of ‘Asian values’ running Southeast Asian economies, or the reverse.

Economic Systems

One of the most common ways of analysing economies is to focus exclusively upon the present in an attempt to explain what is happening just now. This synchronic approach is endemic to the discipline of Economics. What happened last year is relegated to history, a few decades ago to ancient history, both being considered irrelevant to the present. When applied to the current crisis in Southeast Asia this approach leads directly to a search for terms to describe the contemporaneous economies of the region. Generally speaking societies organise economic activities on a voluntary or coercive basis. Even so, history is strewn with a vast variety of successful and unsuccessful systems. Four basic types suffice for our purposes here.

Customary economy is based upon traditions or customs honourced by time and usage. Conformity is the most important element. Ostensibly there were no attempts at new solutions to agrarian crises precipitated by crop failures because tradition had already prescribed the appropriate reaction. This often took a sacral or magical response to appease the gods, demons, or local spirits (Canterbury 1987: 2ff.)

No matter how traditional or customary these economies may have been, they are open to the same type of analysis used for more modern economies. Economic systems may have flourished or failed, but in any event have existed since the time *homo sapiens* emerged as tool maker. That we know little about them does not negate their existence. Moreover from our knowledge of such systems in Southeast Asia today, it would be grossly inaccurate to claim that they were less efficient than the so-called ‘modern’ economic systems. The recognised efficiency (in yields per hour of work) of, for example, the imitative agrarian system (e.g. swidden) should
warn against equating ‘customary’ economies with ‘primitive’ means of production.

**Command economy** is premised on the orders of a superior. Goods and services produced are based on commands as to type, price, and quantity. Classic examples are seen in ancient Egypt or the slave-owning societies of the ancient Greeks, Romans or the ante-bellum American South. In the South-east Asian context there are at least two important variants of the command economy. The first was that created by colonial rule (with the partial exception of Thailand). There was no question of market forces determining the quantity, quality, or price of agricultural goods or services. All were determined administratively by the colonial ruler and enforced by his army, police, or other instruments of coercion. As the colony was supposed to support the metropolitan country, the prices paid for goods and services were calculated as the least possible outlay in the colony for the greatest possible gain for the European masters. That goods and services were destined for the world market, which was generally governed by market forces, does not detract from the fact that the national economy of the colony was a command one.

The alternative variant of command economy in the South-east Asian context is the planned economy of Vietnam, at least before *Moi Đoi* of the late 1980s. This was a classic Leninist communist state in which the allocation of goods and services was planned by the central politburo at prices controlled by the state. Certain parts of such a planned economy are also recognisable in Burmese Socialist Programme Party of Myanmar between 1962 and 1988.

More generally recognisable is the **competitive market economy**. In its ideal form markets, rather than tradition or authority, determine what is produced and to whom the outputs accrue. The market place, however, accounts for only a moderate amount of the transactions in modern economies even in the Anglo-European world. A large part of these economies, including that of the United States, is ‘public’ hence under the control of the government. By definition
Southeast Asian-Centred Economies or Economics?

this sector is not open to the law of supply and demand so crucial to neo-classical economics.

This brings us to the cooperative economy. In some respects this can be seen as a version of the competitive market economy. Quantities of products and their prices are set by the free market system, but their distribution is regulated, or at least skewed, by the government. It is a compromise in that the efficiency of the free market system is allowed free rein in production, but distribution of the yields is determined according to standards of social justice, equity, etc. In Sweden, for example some 90% of industry is in private hands but the government through high tax rates (40–50% of the GNP) and other imposts receives a sizeable part of the GNP to re-distribute in the form of social welfare payments, support programs, extended education, etc. (Canterbury 1987).

In Southeast Asia the cooperative economy takes a different direction. Both production and distribution are important. In the Republic of Indonesia the cooperative form of economy is written into the constitution of 1945, still valid today, as well as the national guidelines for the ‘developmental cabinets’ which have sat since 1966. Article 33 of the constitution proclaims that,

Production is done by all, for all, under the supervision of the people. The welfare of the people is central, not the welfare of individuals. For that reason the economy is built as a common effort based on brotherhood [sic. family-ness = kekeluargaan]. The form of enterprise most suitable is the cooperative ... Land and water and other resources of the land are the main source of people’s welfare. For that reason it should be controlled by the state and be used to maximise the people’s welfare (cited in Hoadley and Hoadley 1996: 185–186)

Classification of Southeast Asian Economies

Given this typology, how do we classify Southeast Asian economies, at least as of July 1997? If we apply the four economies just discussed to the cases of, say, Thailand or Indonesia, then a graphic picture emerges as shown in Figures 1.1 and 1.2
below. The column headings are our four types of economies. These are further divided in the far left-hand column into three sectors, namely agriculture, industry, and service, and further divided into the large-scale and small-scale variations of each. The sectors written in BLOCK CAPITALS (e.g. AGRI(culture), IND(ustry), SER(vice)) indicate the large-scale sector; those written in small letters the local or peasant economies.

Even so rough and ready illustration makes a number of general points concerning Southeast Asian economies. The absence of a sub-sector between the large- and small-scale variants reflects the lack of a middle range in all three sectors. This characteristic is very much at odds with that of Europe or the Anglo world where the middle range, at least in the industrial and service sectors tends to dominate. Similarly noticeable is the relatively large number of restrictions in each sector, on both the large and small scale, which characterise a ‘Command/Plan’ economy. These include regulation and control via taxation, lobbying, monopolistic policy, subsidised prices, protected enterprises, and so forth. The quantity and variety of features of that type of economy contrasts sharply with those of the market and cooperative economies. Do Figures 1.1 and 1.2 indicate that the Thai or the Indonesian economy constituted a Command Economy? Or that the co-operative features are equally important as those of the market? Not necessarily, as the figures show only the presence of the features without making a quantitative judgement. Even so, the figures’ contents question the all-too-glib assumption as to the ‘market-ness’ of the rather typical Southeast Asian economic systems. This is strengthened by the fact that IMF’s strongest demands are for a deregulation more on the model of the former Soviet Union than that of economies closer to achieving a free market system.

**Diachronic Approach**

If one opts for a more historical or diachronic approach, problems of definition give way to those of progression. The challenge is that developments tend to be seen in terms of a
Southeast Asian-Centred Economies or Economics?

**Figure 1.1: Thai Economy/Economics**

<table>
<thead>
<tr>
<th>Traditional</th>
<th>‘Command/plan’</th>
<th>Market</th>
<th>Cooperative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agr</strong></td>
<td>Regulation and control/via taxation (export tax, compulsory rice reserves, quotas); lobby by special interest groups in rice, maize, cassava, and rubber; or monopolistic control by local and/or national government agencies</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>IND</strong></td>
<td>Subsidised = political decisions or protected = Board of Investment (BOI). Public enterprises (infrastructure, manufacture, trade, etc. (see komp), debts = 2/3 plus 1/2 of service rate Command-market FDI: Textile, Chemical, Electricy = 51% of 1,000 largest corps</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>SER</strong></td>
<td>Govt. services = health, ed. welfare, labour migration, tourism Transport: Bangkok Met. (-$30 m); State railways (-$23 m)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>ser</strong></td>
<td>Village heads, village officials, local branches of national services</td>
<td>sex trade, informal sec- tor (peddlers, etc.), staff tourist industry</td>
<td>co-ops, taxis, mini-buses, religious schools at Vat, NGOs (inter- nat’l support)</td>
</tr>
</tbody>
</table>
### Figure 1.2: Indonesian Political Economy/Economics

<table>
<thead>
<tr>
<th>Traditional</th>
<th>‘Command/plan’</th>
<th>Market</th>
<th>Cooperative</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘Moral Economy’</td>
<td>REPELITA (5-year plan)</td>
<td>GSBN (Strategies)</td>
<td>CONSTITUTION 1945: para. 33</td>
</tr>
<tr>
<td>Agr</td>
<td>Regulation and control via gov’t investments and measures for self-sufficiency in rice = BULOG; lobby, mostly limited to cloves; monopolistic control; not important as problem lies in production</td>
<td>Cloves, soya</td>
<td></td>
</tr>
<tr>
<td>Agr</td>
<td>self-sufficiency, no export or specialisation or economics of scale; dry rice producers in upland areas</td>
<td>state-sponsored coops = KUD which are directly subordinated to BULOG and other state agencies for co-operation</td>
<td>trade in surplus production, basic capitalism</td>
</tr>
<tr>
<td>Ind</td>
<td>Subsidised/regulated: political decisions, bureaucratic-capitalism; Protected = crony-capitalism, i.e. joint-ventures of Sino-Indo capital and Suharto ‘royal family’ members; Public Enterprises BUMN [oil, forestry, gold]</td>
<td>Private sector investments, Sino-Indonesians (with help of Suharto family ties)</td>
<td>KUD, credit, etc.</td>
</tr>
<tr>
<td>Ind</td>
<td>Military Enterprises: Command-Market BKPM (Cap. Invest. Cord) PMA (forn); PMDN (dom) suppliers, sub-contractors, cottage industries</td>
<td>local cottage industries</td>
<td>GKBI: bait industry</td>
</tr>
<tr>
<td>Ser</td>
<td>Govt. services = post-1965 Garuda, Tourist Board</td>
<td>Roads (toll-ways), airways</td>
<td>PUSKESMAS, PKK, gov’t engagement via joint-venture co-ops, taxis, minibuses, relig. schools/social welfare via mosque (int’l. Moslem support = NGO)</td>
</tr>
<tr>
<td>Ser</td>
<td>village heads: elected in rural, appointed in urban</td>
<td>village/regional officials, local branches of national services</td>
<td>informal sector (peddlers, etc.), staff tourist industry</td>
</tr>
</tbody>
</table>
mutually interdependent interchange. In the present context we are more concerned with the impact on the pre-existing Southeast Asian economic systems of Anglo-European concepts as to allocation of society’s scarce resources than the reverse, i.e., how European domination in Southeast Asia provoked or made possible certain forms of economic institutions and sub-systems within these self-same European economies.

Within this context a couple of points stand out. The first is that while the systematic study of the allocation of scarce resources is relatively recent, the actual practice of such allocation goes back to pre-historical times. It is Economics that is new, not economies. Logically speaking, then, the question is how local economic systems were affected by alien elements during the more recent phases of Anglo-European intrusion in the region. This leads directly to the second point, namely whether the presence of Anglo-Europeans in the region has ever led to anything remotely resembling their own economic systems. In fact down to the 1950s the reverse was true; Anglo-European presence created economic systems almost directly opposed to their own. A short consideration of the example of Java, supported by the historical situation of selected other parts of East and Southeast Asia, illustrates the argument.

The present author has argued that Southeast Asian socio-economic institutions were already radically altered during the period of mercantile colonialism, i.e., European presence in the region prior to the Industrial Revolution (Hoadley 1994a). The instrument was local potentates’ attraction to the rewards of joining the new system introduced by the great trading companies, most noticeably the Dutch East India Company in Java. By placing their powers over the local productive apparatus in service of the European-oriented production system, local potentates could reap material rewards far in excess than had been possible heretofore. Yet in so doing they also set into motion processes resulting in fundamental changes in their own socioeconomic institutions. In the specific case of West Java this resulted in a new economic system that can be termed a ‘feudal mode of production.’
this new system, direct producers had access to the means of production solely on the condition of producing the potentates’ crops; social differentiation and relative power increased sharply; and land ownership as an institution in absolute terms was created. Preliminary research from areas such as Fujian, lower Burma and Thailand, as well as parts of Luzon suggests that the phenomenon was not limited to Java (Hoadley 1998). In other words, Europeans did not find a ‘feudal’ system in Southeast Asia; they created one.

During the period of industrial colonialism an even greater dichotomy emerged between the economic systems utilised by the encroaching colonists and the locals. If the determining instrument during the seventeenth and eighteenth centuries has been capital, that of the nineteenth was raw military power, exacerbated by the incorporation of local elites as the lowest rank of the European colonial government. The unassailable place of the Europeans in the system and their absolute power over the local population combined to give them an almost super-human stature. As the system required virtually no input from the European side, aside from control over the instruments of coercion, it was exceedingly lucrative for them. For the local society the effects were less lucrative but no less fundamental. To this period belongs the creation of the Southeast Asian village as centre-point of community life, the establishment of so-called communal ownership of land with periodic divisions, the ascension of the local potentate as a hereditary leader, and the tying of the direct producers to a specific piece of land, one now ‘owned’ by the local lords. The enormous social gap between ruler and ruled and the degree of control over direct producers that limited both their economic and their social freedom suggests that the system created by European colonialism resembles nothing else quite so much as a parody of an ‘Asian Mode of Production’. Whether or not this argument is sustainable, the contrast between what Europeans created in the lands in Southeast Asia and their own socioeconomic developments could hardly have been greater.
High Colonial Economy

European powers that came to Southeast Asia were quick to introduce economic forms which would have been unacceptable in their own countries. Monopolistic and oligarchical economic forms inherent to capitalism were supplemented by what can be termed something like a ‘Monopolistic/capitalistic’ [= ‘command/plan’?] economic system in that coercion of the labour force and control of prices is an intimate part of the economy in the region. These were introduced during the course of the eighteenth and nineteenth centuries as the European powers acquired sufficient political authority to impose them on the local population. Such measures were useful instruments in international competition with other (market-oriented) European powers.

It seems not without reason to call the colonial economy a double one. For clarity’s sake we can use the model of Figure 3 and attempt to plot the various components of the colonial economy on it. A distinction is made here between production and distribution, between creating wealth and how it is to be shared, if at all. To the common observation of the existence of a dual economy within the colonial world (see below) comes that existing between colony and metropolitan country. Within the basic capitalistic economy the European engaged

**Figure 1.3: The Colonial Economy**

<table>
<thead>
<tr>
<th>Production</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AGRI</strong></td>
<td>quality, quantity, &amp; price set by gov’t, forced upon producers</td>
</tr>
<tr>
<td><strong>agri</strong></td>
<td>self-sufficient; trade in surplus production</td>
</tr>
<tr>
<td><strong>IND</strong></td>
<td>none. manufacture competes with European (metropole) industry</td>
</tr>
<tr>
<td><strong>SERVICE</strong></td>
<td>subordinated to AGRI, i.e. health, some education for colonial machinery</td>
</tr>
<tr>
<td><strong>service</strong></td>
<td>none.</td>
</tr>
</tbody>
</table>
in what could be termed a ‘colonial business’. The colony – even some of the world’s most populous countries such India or Indonesia – was managed as a branch office of the European-based company or a state-owned enterprise. Moreover the government of the colony was composed of ‘businessmen’ insofar as they were hired and fired by Crown or company on the basis of how well they ran the colony, i.e. whether or not it showed a profit. ‘Profit’ here is used in the broadest sense as being a profit for the state, for private enterprise or state-owned businesses, citizens of the metropolitan country, or some combination of these. Thus the command/plan economy of the colony was a conspicuous component of the capitalist one of respective European powers.

**Synthesis**

An attempt to combine the two approaches the results in Figure 1.4.

<table>
<thead>
<tr>
<th>Period</th>
<th>Types of economy</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>pre-colonial (until 1700)</td>
<td>traditional</td>
<td>command</td>
<td>market</td>
<td>cooperative</td>
</tr>
<tr>
<td>mercantile (until 1800)</td>
<td>traditional</td>
<td>command</td>
<td>market</td>
<td>cooperative</td>
</tr>
<tr>
<td>industrial (until 1900)</td>
<td>traditional</td>
<td>command</td>
<td>market</td>
<td>cooperative</td>
</tr>
<tr>
<td>high-colonial (until 1942)</td>
<td>monopolistic/capitalistic</td>
<td>Sino-Indo commerce</td>
<td>command</td>
<td>cooperative</td>
</tr>
<tr>
<td>independent (until 1966)</td>
<td>monopol/capital → state sector entrepreneurial vs Sino-Indo</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>post-modern (until present)</td>
<td>state owned/controlled</td>
<td>(crony/ersatz capitalism?)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Figure 1.4: Di-synchronic Approach**
Southeast Asian-Centred Economies or Economics?

The pre-colonial situation is more or less a guess. One knows only that trade was an important component of the economy, the revival of the East-West trade being one, if not the chief, cause of the rise of modern Europe. Hence it seems likely that the traditional and market economies were more or less balanced. The question mark indicates uncertainty as to the role cooperative forms played in the pre-colonial situation.

In the mercantile situation of the seventeenth and eighteenth centuries the introduction of new, non-food crops specifically for the European trade – indigo, coffee, quinine – totally reworked the local productive apparatus. This is indicated here by a marked growth in what must be seen as a market economy for just these products. As far as the extant sources are concerned, there is simply little indication of a significant cooperative economy. This does not, however, rule out the possibility that this type of economy existed.

The greatest change brought about by the period of industrial colonialism was the introduction of a command element. Direct producers were simply ordered to produce desirable goods for the European market which were collected in lieu of a land-tax (actually a creation of the English interregnum 1811–16).

As the line indicates, the high colonial period extending down to the Japanese invasion of 1942 differs considerably from its predecessors. The most important change was the modification of the command economy, rather than the establishment of new forms, into something like a monopolistic-capitalistic one. That it cannot be considered simply a variant of a capitalist economy comes from its dependence upon physical control of the labour force by the government, the closing of the economy to competition, both internal or foreign, and restrictions on access to the means of production, i.e. land. Hence market forces existed only at the apex of the economy vis-à-vis the world market and even there considerable restrictions existed. In addition to this highly regulated sector there remained the direct command production of, for example, coffee up until 1919.
Another important feature of the high colonial period is the rise of the group of Sino-Indonesians (Malaysians, etc.) within the colonial or neo-colonial economy. Their being allowed greater freedom within the colonial economy was a function of the colonial power seeking to counterbalance Indonesian demands for political freedoms. Hence those who would become Sino-Indonesians were simply incorporated in the colonial system. If they did not make the category of ‘honorary whites’ as did the Japanese, they were given special recognition and many of the hindrances to trade and commerce in the hinterland eased or removed. Hence the strong showing of the market economy is explained by growing ethnic dominance as a complement rather than an alternative to the colonial command economy.

During the first period of independence up to the late 1960s the trend was more or less the same. The colonial monopolistic-capitalistic economy was nationalised or taken over in various stages and subsequently administered by or on behalf of the state. This could take the form of actual state enterprises, departments, or military business groups. Again the distinction between this type of economic system and ‘real’ (market-dominated) capitalism is blurred by the official attempt to create ‘entrepreneurship’ among *pribumi* (the ill-fated Benteng Program providing a particularly good example). While the trend continued during the post-modern period of the New Order, the distinctions between what had derived from the (colonial) command and the (modern) market economy are more or less erased. How one classifies the situation depends very much on whether cronyism is a part of a market economy or part of a somewhat controlled economy, whatever that can be termed. A case can made for both interpretations in not only the specific case of Indonesia but also the remainder of Southeast Asia, including the Thai case which shows considerable parallels despite lack of formal colonialism.

**Conclusion**

Involvement of the Anglo-European countries in Southeast Asia down to the 1950s has never led to establishment of a
western style economic system. On the contrary it has resulted – consciously or otherwise – in economic systems completely at variance with European ones. These, in fact, often comprise the exact opposite: a command economy of the colony supplies the liberal one of the metropole with resources. Even in a non-colonial land like Thailand, the presence of western-experienced economists did not lead to a liberal western-style economy. This being the case, why should the situation after the 1950s and up to the present be any different? The basic underpinnings of Western liberal economics has not changed so terribly much as regards goals and instruments after that time. Why then should its influence suddenly produce a world full of western economic entities? Developments following July 1997 in Southeast Asia show that either it did not, or that the liberal capitalist economies were so skewed away from the basic market principles as to relegate them to another type of economic system. Most of the causes or exacerbating features such as ‘crony capitalism’, conglomerates/ kongsi, dominance of state enterprises in all fields of endeavour, and political nepotism so common to Southeast Asia are foreign to the principles of ‘standard’ economics.

This still begs the question as to what type of economy has characterised the lands of Southeast Asia and what type of economies will emerge from the current crisis. While one could take refuge in suggesting some sort of ‘mixed’ economy, so far used to describe everything from Sweden’s cooperative economy to the Mafia-style of the former Soviet Union, a more accurate term would be a ‘mixed-up’ economy. This, however, does not take us very far. Nor is this workshop geared to providing a definitive answer, or even an indefinite one! The point of departure for the volume’s contributors is that no valid understanding of the economic situation in Southeast Asia can be forthcoming as long as indigenous economic concepts and instruments are not taken into account. To subject all economies to an Anglo-European Procrustean bed is to do a disservice both to Southeast Asia scholarship and to the countries under consideration.
What we seek to accomplish here is to consider some of the more important variants of what has been termed Southeast Asian-centred economics. Those specifically represented here include ‘Ekonomi Pancasila’ (Mubyarto), ‘Consuming Islam’ (Shamsul), ‘Buddhist Self-Reliant Strategies’ (Apichai), plus a number of other examples and parallels which will undoubtedly come up in discussion. Here one thinks of BSPP Burma, Vietnam’s Doi Moi, The Philippines’ New Order, etc. in both synchronic and diachronic terms. Our goal then is not only to air alternatives to neo-classic, western economics but also to attempt to reformulate them as, albeit tentative, models for understanding Southeast Asian economies. The exercise will also point out strengths and weaknesses both in comprehension and in execution of the models so as to contribute further to the reformulation and reworking of the basic models.

References
Reform Aimed at Realisation of the *Pancasila* Economy System

*Mubyarto*
*Gadjah Mada University, Yogyakarta*

The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes … I believe that there is social psychological justification for significant inequalities of income and wealth, but not for such large disparities as exist today. (J.M. Keynes, 1936)

For the contemporaneous thinker, the monetary and economic crisis now entering its ninth month stimulates thoughts of the past. It raises the question whether the crisis would have been equally serious if the principles of the *Pancasila* Economic System had been applied since the beginning of REPELITA III (1979). Seen another way, we can question the wisdom of extent of deregulation implemented to address the economic recession which followed plummeting oil prices in 1982. Although the deregulation resulted in increased economic growth, it was accompanied by economic disparities and strained social relations which were cause for great concern.

Economic globalisation increasingly affects the entire world, especially in the aftermath of the 1991 dissolution of the Soviet Union. Even though it can threaten a national economy it has not been rejected. What is more, it has become a sort of ‘golden opportunity’ for Indonesian businesses. The govern-
ment and the general public have chosen to take a positive attitude towards globalisation with the President’s well-known statement that, ‘like it or not; ready or not’ we have to join globalisation because ‘we are already a part of it.’ This was one of the main reasons Indonesia took the step of becoming host for the second APEC Summit in Bogor in 1995.

Reasons for the monetary crisis
At the beginning of the crisis, when Mahathir Muhammad blamed currency speculators for bringing about the Malaysian crisis, the general opinion in Indonesia was that external and internal factors had played an equally important role. Later it became obvious that short-term private debt had exceeded entrepreneurs’ capacity to pay; this was thought to have been the ultimate source for the evaporation of the outside world’s confidence in the Indonesian economy. The first proof of its crumbling economic condition was the closing of 23 Indonesian private banks which were considered to be ‘unhealthy’ due to their sizeable bad debts.

Our monetary crisis in this period seemed to be a replay of two similar economic crises (1966–73 and 1980–87), reminding us that the Indonesian people always needed to return to the Pancasila as the fundamental handhold on the Indonesian moral and economic system. Economic life, which tends toward luxury and over-indulgence in an atmosphere of total prosperity (like 1973–80), and towards great concern for the economy in an atmosphere of recession (1966–73 and 1980–87), reveals striking similarities in the changes our nation undergoes every seven years.

There is empirical evidence to show that the Indonesian economy goes through swings in seven-year cycles, as in God’s order in the Surat Yusuf, paragraphs 47–48:

(Joeshep) said: For seven years shall Ye diligently sow, as is your wont: And the harvest that Ye reap, Ye shall leave them in the ear, except a little of which Ye shall eat.
Then will come, after that (period) seven dreadful (years) which will devour what Ye shall have laid by in advance for them – (All) except a little which Ye shall have (specially) guarded.
During the five years since the GBHN (Garis-garis basar haluan negara, state policy guidelines) was approved by the People’s Consultative Assembly in 1993, various theories of the Pancasila Economy (sila = principle), have been applied towards the realisation of social equality (sila number 2), mutual help (kegotong-royongan) and democracy (kerakyatan) (sila number 4) and the realisation of social justice for all the peoples of Indonesia (sila number 5). REPELITA VI [Indonesia’s seventh five-year plan, for 1993–98], chapter 9, entitled ‘Equitable Development and Poverty Eradication’, and the subsequent execution of the IDT (Inpres Desa Tertinggal) programme based upon the Presidential Decree Number 5/1993, are concrete efforts to carry out the stipulation of the 1993 GBHN. The IDT programme has three main missions: 1) to trigger and spur the national movement to eradicate poverty; 2) to implement the strategy of equality in development and reduction of economic and social disparities; and 3) to develop people-oriented economies. These are concrete efforts for realising the aspirations of social justice and equity contained in the Pancasila Economy.

In the middle of the seven-year cycle of the development of people-oriented economies (1994–2001) which follows a period of ‘conglomeration’ during the seven preceding years (1987–94), the Indonesian people are suddenly burdened with a ‘test’ of Allah the Almighty. Is it possible to be firm in the choice and pursuit of the people-oriented economies? In a trying time such as the present one, the Indonesian people need to repent and carry out a ceremony of ‘warding off (an illness)’ against the seduction of pride and greed which threatens Indonesia’s unity and national solidarity (sila number 3) if it can not be overcome.

God set forth a Parable: A city was enjoying security and quiet, abundantly supplied with sustenance from every place, yet the people of the city were ungrateful for the favours of God. So God made it tangible. Hunger and terror in extremes closed in on the city like a garment (from every side), because of the (evil) which its people had wrought (An Nahl, 112).
When we decided to destroy a population, we (first) set a definite order to those among them who were given the good things of this life. And yet they transgressed; so that the word is proved true against them; then we destroyed them utterly (Al Israa, 16).

In addition even the oath of the members of the MPR (Majelis Permusyawaratan Rakyat, People’s Consultative Assembly) every five years is aimed at ‘upholding the Mandate of the Peoples’ Suffering’ which is described expressly as raising the fate and status of people who still are not capable of enjoying the fruits of independence, even though Indonesia has been an independent country for over 52 years. The Indonesians who still suffer are not only those who live in absolute poverty, but are also all those in the category of ‘not yet prosperous’ or ‘lacking social welfare’, which with the present monetary crisis has greatly increased.

**Political Economy, Economics, and Moral Economy**

Every science has been ‘discovered’ by human beings in order to assist in the resolution of problems confronting humanity. These are not private problems which confront individual scholars, but the problems of the entire society in which they live. Science is, thus, merely a ‘tool’ for achieving progress and good fortune for human beings.

As with many other sciences, the science of economics was born and flourished initially in the western world. This was because the development of science needs a supportive climate, namely one that allows free thought. Only within an environment of free thought did scientists have the opportunity to develop their science.

As its name suggests, economics has undergone a number of developments and changes in its paradigm through the centuries. In the late eighteenth century it was called ‘Political Economy’ (Adam Smith, J.S. Mill); in the nineteenth and early twentieth, ‘Economics’ (Alfred Marshall, J.M. Keynes); and in the later twentieth and the beginning of the twenty-first century, there are strong signs that it will be called ‘Moral Economy’.

31
Southeast Asian-Centred Economies or Economics?

For a number of reasons, the science of economics has developed much more slowly in Indonesia. The most important of these is the lack of moral and social stimulus for scientists to work at developing it. The majority of Indonesian economists are not stimulated to make a great effort because according to them, the science of economics has already been very well developed in the West, hence it can be used straightforwardly for resolving Indonesia’s economic problems.

The Pancasila Economy is at once a science, an art, and a moral code for supporting the Indonesian people who adhere to the Pancasila ideology during a process of development. The process is difficult and the way full of twists and turns. But its prospects are good.

The Pancasila economy is a ‘moral economy’, not merely economics or political economy, because at its heart lies the living philosophy of the Indonesian people which has been cultivated in the minds of all members of society. The development of the science of Pancasila economics is, thus, not dependent only upon economists. It is a multidisciplinary science within the social sciences which also has the support of the entire society, especially the leaders of business, politics and religion.

Reformation Goals of the Pancasila Economy

The Pancasila and the Constitution of 1945 (para 33) order that the state, which continually strives for the greatest prosperity and social welfare for her people, should control the vital branches of production and the nation’s natural resources. This means that neither private business (national or foreign) nor individuals shall be more powerful than the state. This limitation on the power of individuals and private companies apparently has not been respected during the process of excessive deregulation. For example, REPULITA VI asserts (with apparent pride) that 73% of investments have been ‘contributed’ by the private sector. The aim of private business, which far overshadows that of the government’s investments, is to achieve an average rate of economic growth of 6.2% per year, (later was revised upward to 7.1%). In light
of the current monetary crisis it will be impossible to achieve this target.

It would be interesting to note the share of private investments in overall investment, the proportion contributed by joint ventures between private and government companies, and the proportion of both openly and hidden ‘collusive’ cooperation between individuals and the government. This collusive symbiosis has become the target of critics and the 1998 GBHN officially forbade this practice, linking it to corrupt practices that take the form of monopolies and monopolistic activities, practices which operate to the detriment of society.

Indonesian economic reform, both that which began with REPELITA VI via the programme for the development of people-oriented economies, and the liberalisation movement (with or without help from the IMF in connection with resolving the monetary crisis), constitute very important topics during the period of the upcoming REPELITA VII (1998–2003). Economic reform with or without political or legal reform is being demanded by the public at large, in hopes of reducing the economic and social disparities which had caused great concern by the end of REPELITA V (1993).

Economic reform was an important part of the political agenda during the first Long-Term-Development Plan (PJP I – these are Indonesia’s long-term strategic plans of 25 years, the first being from 1969–94), which resulted in raising Indonesia from the position of a poverty-stricken nation to one in the middle-range income group, with a four-fold increase in real income. During this period serious inequalities in income distribution arose which in turn left around 13% of the inhabitants in a condition of absolute poverty. Social life cannot remain stable or peaceful as long as economic inequalities and social disparities like these continue to exist.

During the three years of REPELITA VI (1994–97) poverty declined sharply, from 25.9 million persons to 22.5 million, or from 13.7% of the population to 11.4%. This is almost three times the decrease in the three years preceding this period (1990–93). Even though the level of poverty is declining sharply,
though, there is still no sign of a reduction in the inequality of income distribution, and the inequality between regions and between industry and agriculture has become greater.

*Inequality between sectors: Industry and agriculture*

This type of inequality appears to be an old one and is a subject of research in many countries. There have been many efforts to improve the lot of the farmers, both in the form of extension programmes directed at farmers and small-scale fisheries and in the form of the introduction of high yield technologies such as the ‘green revolution’. Beginning in the early 1970s, the ‘Green Revolution’ was able to raise rice production in an ‘exceptional’ manner so that Indonesia reached self-sufficiency in rice production by 1984. Even so, these innovations obviously have not yet been able to overcome the inequality (and dualism) at the village level. Nor have they been able to reduce inequalities between the agricultural and industrial sectors.

*Disparities between regions*

Historically regional disparities have been between Java and the ‘outer islands’. Due to the economic progress of the province of Bali, current disparities have developed between ‘Java-Bali’ and ‘outside of Java-Bali’. In this context what has become more important is an analysis of the inequality of development existing between the western regions of Indonesia (KBI, *Kawasan Barat Indonesia*) and the eastern part (KTI, *Kawasan Timur Indonesia*), whose development has been relatively retarded. KBI constitutes 32% of the area and 81% of the population of Indonesia, while the area of Java-Bali constitutes 7% of the land area and 60% of the Indonesian population. The economic growth rate of Java-Bali (1975–85) was more than 9.2% per year as compared with 6.5% per year for the region ‘outside of Java-Bali’.

*Inequality between economic groups*

Inequalities of this nature are the most difficult and in a ‘liberal-capitalistic’ economic system which grows too rapidly, can result in more and more serious inequalities which become
increasingly difficult to overcome. After the deregulation policy began to take hold in the middle of the 1980s, a serious discrepancy arose between the ‘conglomerate economies’ and ‘people-oriented economies’. The Gini Ratio of per capita expenditure rose from 0.32 (1990) to 0.34 (1993) to 0.36 (1996). But in rural areas it fell from 0.31 to 0.27 (1976–96), while in urban areas it remained steady (0.36) despite a temporary decrease to 0.32 during the recession of 1984–87. In light of these disturbing indications, the MPR once warned in relatively strong language that ‘if the economic inequality and social disparities are not combated, social jealousy and distrust are to be feared’.

**Poverty**

One form of inequality which is most serious and clearest is absolute poverty. This is because those who are impoverished are not able to lead a decent human life in keeping with the second *sila* of the *Pancasila*, namely a ‘just and civilised humanity’. Poverty, in fact, already began to peak during the first three years of REPELITA VI and has continued up to the time when Indonesia experienced the disastrous monetary crisis beginning in July 1997. The latter not only slowed down efforts to combat poverty but also re-impoverished those who had already come above the poverty threshold.

Economic reform must entail an effort at improving economic policy in the short, middle, and long terms, which should result in increased economic efficiency and directly influence the sense of social justice. An efficient national economy is one which is not completely free or ‘optimal’ in the use of resources but at the same time is one which is just. In a just economic system, rules are based on ethics and morals which have been agreed upon as proper for all economic actors.

Economic justice is when the rules of the game with regard to economic relations are based upon ethical principles, principles which in turn originate from the laws of nature, the laws of God, and the social nature of human beings (MacPherson, 1985, pp. 2–3).
Southeast Asian-Centred Economies or Economics?

During the history of Indonesia’s economy since independence, it has been proven again and again that economic efficiency can decline and even stabilise at a very low level for a long period of time without generating social unrest. The lack of economic justice and social equity, however, immediately sparks social protests and demands for steps to develop them. In other words, society does not seem to have difficulties with inefficiency or high prices, but will not allow the lack of economic justice to continue for any length of time.

Economic reform has as its goal raising national economic efficiency, while at the same time erasing economic injustice and inequity. Its ultimate goal is to create a just and prosperous society based upon the Pancasila. In addition to eradicating inefficiency and economic injustice, national development must be sustainable, i.e., not extravagant in its use of natural resources to provide increased prosperity for the present generation while making it difficult for future generations.

The Pancasila Economic System, incorporated into the GBHN of 1998, is an economic system based upon ethical principles which in more detail are contained in the seven new “paradigms” as follows (GBHN1998–2002):

1) it has to contribute to creation of an enduring national resilience which is firm and substantial;
2) it has to contain the character and resolve for independence for individuals, the family, and Indonesian society;
3) the national economy has to develop toward an economy characterised by justice and a high degree of competition;
4) economic democracy has to take the form of strengthening the structure of national endeavours;
5) cooperatives are the pillar of the national economy, as an activity and a form for the people-oriented economic activities; the use of cooperatives as a business form is directed at strengthening and widening the basis of enterprises;
6) business partnerships [kemitraan usaha = alliances between larger and smaller companies with a view toward helping the latter] which are mutually advantageous;
7) national enterprises have to be developed as businesses which together are based on brotherhood (kekeluargaan = family-ness) within a managed market and guided by faith and devotion to Almighty God, as well as a high nationalist ideal.

The Indonesian economic reform which we should like to see realised is a renewal of various rules of the game concerning economic relations within society. These rules should exist as a type of standardised form within the Pancasila economic system. The composition of the rules of the Pancasila economic system in a complete and consistent manner is still in process. It is a great step forward that this system has now been incorporated into the 1998 GBHN. Yet because of the sudden monetary crisis (krismon) which has shaken up the entire economic and social fabric, this progress has not been sufficiently understood by society. Still, we do not have to wait for the storm to subside before making this new economic system operational with a view to reforming various laws in the fields of economy, finance, and industry. This is a moral struggle to create a just and prosperous society based upon the Pancasila.

Economic policy which results in sustainable development is not only measured in terms of high economic growth. It must also contain four fundamental criteria: sufficiency, equity, efficiency, and sustainability (Daly 1996).

**Conclusion**

The Pancasila Economy is the Indonesian national economic system (SENi, sistem ekonomi nasional Indonesia). Within it the people, with their multifaceted forms and ideals of life, interact within a spirit of brotherhood (kekeluargaan = family-ness) in the effort to raise the standard of prosperity and social welfare toward creating social justice and equity. Social justice, the ultimate goal of SENi, will be accomplished when all members of society follow the rules of the game of economic justice. Rules of economic justice in turn stem from every sila of the Pancasila which are as follows:
Southeast Asian-Centred Economies or Economics?

1) the wheel of the people-oriented economic activities is induced to turn by economic, social, and moral stimuli;

2) all the members of society shall be resolute in the attempt to realise equity, that is they must not tolerate economic and social disparities;

3) all economic actors, be they producers, consumers, or the government must always have the spirit of nationalism so that every economic decision gives priority to realising the goals of a stable national economy;

4) cooperation and a cooperative spirit always inspires economic actors as members of society. Economic democracy or people-oriented economies are led by the wisdom (hikmat) within an atmosphere of deliberation and representation;

5) within the broader national economy one should continually make efforts to bring about a balance between the national economic plan and decentralisation in its implementation in the region. Only via active regional participation can economic equity be brought to completion in order to produce social justice and equity for all Indonesian people.

In order to correct uneven development, the rules of the game of the system of western liberal capitalism must be exchanged for rules of the game which are more appropriate to the ideology of the Indonesian people, namely the Pancasila. With the new rules of the Pancasila economy, economic actors, including producers, consumers, and the government, all must ‘change course’ and leave behind the old pattern based upon free flight liberalism and monopoly which clearly profited only a few and caused losses to society and the general public. This change of course in order to follow new rules of the game is not an easy affair, especially within the context of globalisation of world markets which follow the rules of liberal capitalism. If the ultimate goal of SENI is social justice and equity for all Indonesian people with a solid national economy, then the rules of the game which have to be fulfilled are those of the Pancasila economy; these cannot be compromised without endangering the development of Indonesia’s national economy.
Discussion

Comment: As I am not familiar with the actual working of the Pancasila economy, I limit my comments to interpretations of the crisis from mainstream economic point of view. Here one can mention that there were warnings of an impending crisis. Despite high growth rates, there was considerable investment in non-productive activities (the real estate bubble), etc. The China factor was problematic after 1993 with increased export of the same type of articles as Indonesia. In addition was the growing competition from India, as well as Indonesia tying their currency to the dollar. The real problem was deficit financing of the economic growth through external borrowing. As most of this borrowing was not ‘hedged’, this led to a doubling of foreign debts, hence the major factor was a ‘debt crisis’ which led to a monetary and finally to an economic crisis.

Question: How do we go from the micro-economic observations to developmental explanations within the concept of Ekonomi Pancasila? In other words, is this more a political manifestation or an actual economic programme and to what extent are there unique Indonesian values which make mainstream economics less applicable or appropriate to the current Indonesia situation?

Answer: As I mentioned in my paper, the Ekonomi Pancasila as a whole has not yet been applied as an active policy within the Indonesian economy. If it had been then we wouldn’t be in such a mess today! Obviously the Ekonomi Pancasila is a model of an economy with morals springing from the belief of the Indonesian people which are certainly unique. Just as I do not think the Ekonomi Pancasila would work in Sweden, why should Western economics automatically prevail in Indonesia?

[intervention: or other countries of Southeast Asia!!]

Basically Indonesia aspires to a trilogy of development of economic growth with stability and equity. Economic growth has been the area of the private sector with its emphasis on
Southeast Asian-Centred Economies or Economics?

profit orientation and maximisation. The state enterprises or state sector accounts for the overhead and provides stability for the economy. Equity, or the service-oriented, associative sector, is represented by (among others) cooperatives, small business, and other associations for the betterment of the lives of the majority of Indonesians.

With regard to economic policy on the micro level, I can cite the IDT (Inpres Desa Tertinggal) programme as a concrete example of how the ideals of the Ekonomi Pancasila are being transformed into concrete measures for reducing poverty in the Republic. The IDT programme which has been running since 1993 is aimed at over one hundred thirty-six self-help groups, i.e. over four hundred thousand families comprising some 12.5 million citizens. These are given the opportunity to pool resources in order to take the initiative to better their own lives with some assistance from the central government. Down to the crisis in mid-1997, governmental programmes have been successful in reducing absolute poverty to less than 10% from around 40% in the mid-1960s. [Editor’s note. The most recent figure is between 40% and 50% in the wake of the economic crisis.] For this programme some six hundred million rupiah in 1994 was taken directly from the government’s own budget. Despite offers from the World Bank to provide the funds, the Indonesian government felt that it should provide Indonesian solutions to Indonesian problems without aid from abroad. Of course Indonesia as a poor nation needs foreign aid, but we want to keep local emphasis in how it is used.

Thus the answer to your question is that as every observer of Indonesia knows there is a deep-seated feeling for Ekonomi Pancasila, and the existence of this seminar shows that it is becoming recognised even here in Europe.

Discussion: The problem with models – and mainstream economics must be seen as a model, even one which The Economist concedes is not so good at explaining what has happened and even worse at prediction – is that they are as
much for understanding as prediction. Here mainstream economics had no clue as to the impending crisis in Southeast Asia although in retrospect all the warnings were there. The Question is, then, as much the applicability of models as the veracity of their contents.

Discussion: Planning is only partial, not total. By this I mean that governmental actions are more or less aimed at obtaining desirable results. This does not guarantee that such are obtainable! At any rate a moral economy of the type mentioned by Pak Mubyarto takes the desires and aspirations of the bulk of the nation’s citizens, i.e., the little people, into account rather than imposing measures from the top down by leaders rather alienated from the village.

Question: According to neo-classical models Indonesia was obviously (Editor’s note: at least in hindsight) more vulnerable than the other countries of East and Southeast Asia. As the inequalities between expenditures and income were so great it was obvious that it should most strongly effected and for the longest period of time. Thus is a concept like Ekonomi Pancasila needed to understand what happened?

Answer: Here we should not mix up Pancasila economy with explaining what happened in wake of July 1997. I have maintained that had Indonesian policy makers been more active in observing and implementing the concepts of Ekonomi Pancasila the crisis would have been different in Indonesia. As both neo-classic and alternative economic explanations are ex post facto (knowledge in hindsight), there seems precious little to choose between the two. More important is that Ekonomi Pancasila is a moral and practical blueprint for building a more just society with economic and social quality for all, not one for the enrichment of the few at the expense of the many!
Southeast Asian-Centred Economies or Economics?

References
Daly, Herman E. (1996), Beyond Growth: The Economics of Sustainable Development, Boston: Beacon Press.
An Economic Crisis and a Crisis of Analysis
The present crisis in Southeast Asia is not only an economic but also a socio-political one. We have to examine its socio-historical roots and political dimension in order to understand and explain it better. After all, the ‘economic growth’ that the countries of Southeast Asia enjoyed before the crisis was possible not only because of economic factors but also because of the ‘political stability’ factor. This is especially true in the Malaysian case because the economy has always been intricately interwoven with politics, especially the politics of ethnicity, which in turn, is defined in terms of religion. This fusion of ethnicity + religion + economy has existed for centuries but has taken different forms in different historical eras, especially during social and/or economic crises. It is these configurations, specific to particular periods and contexts, that we tend to focus on without observing their longitudinal continuity.

While it is useful for investors, especially speculators, either Malaysians or foreigners, to understand and examine the micro-anatomy of the recent economic crisis in Malaysia, for the majority of the Malaysians it was the ‘ethnic blood bath’ of May 13, 1969 that is commonly perceived as the real crisis, the kind that they have to work hard at avoiding. They do recognise the severity of the present currency crisis but
Southeast Asian-Centred Economies or Economics?

they are forced to cope with it in the most reasoned manner possible so that Malaysia does not become another Yugoslavia or Sri Lanka, or return to the dark days of May 13, 1969. That Malaysia is recovering from the crisis rather quickly compared to its neighbours is due to both economic and political factors. In other words, the present economic crisis and recovery in Malaysia should be located and understood within a broader historical and contemporary context.

In that broad context, I wish to highlight the significance of the religious dimension (read: Islam) in Malaysia, not only within the political realm – its traditional realm and analytical site – but also within its new realm, namely, the economic one. Indeed the critical stabilising role in the recent crisis of Islam and Islamic financial institutions in Malaysia (especially amongst the Malay Muslims who form the majority of the Malaysian population), has never been given the analytic treatment it deserves. This is an exploratory attempt towards that end.

Therefore, in this brief essay, I intend to do the following: 1) outline briefly how ‘ethnicity + religion + economy’ came to be fused historically (viz., the fusion of Malay & Malayness, Islam and the economy), touching on the series of social and economic crises faced by the Malay Muslims and other ethnic groups during the post-war and post-colonial period, and outlining state efforts to resolve these crises; 2) focus on the ‘mainstreaming’ of Islam in the 1980s, through a number of strategies adopted by the Malaysian state, including an important economic one (namely, Islamic financial institutions), when the state sought a religious middle-ground in a multiethnic society; 3) observe the importance of the ‘rhetoric of Islam’ and the high-profiling of the so-called ‘Islamic economics’ (or simply financial organisations) in the recent economic crisis as a strategy to cope with the problem, both economic and non-economic in nature.

Malaysia = Ethnicity + Religion + Economy

Malaysia is a multiethnic and multireligious country in Southeast Asia. Of the population of 20 million, Malays, who
are Muslims, constitute 55 per cent. They are the dominant political and cultural force. The ethnic Chinese (34 per cent), the ethnic Indians (9 per cent) and small indigenous groups (2 per cent) – all of whom are non-Muslims – constitute the remainder of the population.

Because the Malays are themselves divided politically, the support of the Chinese or the Indians is critical to any Malay faction not only in ensuring its survival as the dominant political force but also, ironically, for the continued political dominance of the Malays. Therefore, Malay dominance has always been a negotiated one, which explains why inter-ethnic and inter-religious coalition parties, whether as an opposition or as the ruling party, have dominated democratic electoral politics in Malaysia since the end of World War II.

Religion has become the ethnic identifier. It is certainly the case for the Malays. By default, it is also for the non-Malays, who are perceived by both the authorities and the public as, first and foremost, non-Muslims and later Christians, Buddhists, Hindus and others. Although the powerful cultural influences of Buddhism and Hinduism affected the inhabitants of the Malay world, it was Islam, brought by Arab and Indian merchants and Chinese traders from the fourteenth century onwards, that came to dominate the spiritual and material world of peoples of the region living under a number of feudal rulers.

Islam became the source of legitimacy for the Malay rulers, called raja. The complex of hierarchical institutions within the sphere of feudal power and authority, or kerajaan, became Islamicized, too, but often spiced with local, pre-Islamic cultural flavours. Although Islam and Malay identity fused during this era, many Hindu and pre-Hindu practices, collectively referred to and embraced as adat, or customs, were still observed by both the ruler (raja) and his people (rakyat). ‘Malayness’ had two central pillars: Islam as the religious and universal one, and, adat, or the Malay customs, as the local moral one.

In the eighteenth century, the British colonised Malaysia, introducing a clear distinction between religion and the state through a civil administration and a legal system different from
Southeast Asian-Centred Economies or Economics?

the Islamic and adat (customary) legal system and courts. To colonise millions of hectares of virgin tropical forest and turn them into rubber, oil-palm, and coffee plantations, the British brought in thousands of indentured labourers from India and China, changing the makeup of Malaysian society forever.

Ethnic pluralism and separation of the state and religion became major political issues throughout the 1930s, during the Second World War and until the early post-war period, articulated by ethnic-based and religious-oriented nationalist movements. The Malay nationalist movement was fragmented, but factions within were united on the role of Islam as the definer of Malay identity and as one of the three pillars – along with Malay language and Malay ruler – of the imagined Malay nation. Chinese immigrants were divided over the issue of ‘homeland’. Some considered Malaya their home but many looked to China.

The Japanese occupation (1941–45) transformed ethnic and religious politics in Malaysia into an open and eventually violent conflict. A faction within the Malay nationalist movement welcomed the Japanese and worked with them but the rest of the nationalists supported the anti-Japanese movement led by the British. Because the Japanese had massacred thousands of innocent Chinese and buried them in mass graves in Malaysia, the Chinese were totally anti-Japanese and supported British efforts to wrest back control of Malaysia.

When the Japanese surrendered in 1945, ethnic violence broke out in many places and continued for about two weeks. It occurred primarily between Malays, especially those who were perceived as collaborating with the Japanese, and the most radical Chinese group from within the anti-Japanese movement. Hundreds were killed on both sides, children and adults. Although the Chinese attack was both ethnically and ideologically motivated, the Malays resorted to Islamic and pre-Islamic cult practices to defend themselves. A series of open, if minor ethnic conflicts followed in Malaysia.

The British tried to contain this ethnic conflict by attempting to establish a unitary state through the ‘Malayan Union’ project,
in which feudalism was to be abolished and citizenship granted for all. The union failed and in 1948 a federation-type government was reinstalled, consisting of the Malay rulers and their provincial states and forming the Federation of Malaya (later Malaysia).

The somewhat problematic ‘federation’ structure of governance still survives. Through the Constitution, it institutionalised a multiethnic and multireligious political system that left society in a ‘state of stable tension’. On May 13, 1969, open ethnic conflict broke out, mainly in Malaysia’s capital city, Kuala Lumpur. The conflict involved principally Malays and Chinese, both resorting to ethnic and religious strategies and actions.

The aftermath of 1969 brought about two major changes: the formulation and implementation of a long-term state-initiated pro-Malay affirmative action policy called the New Economic Policy (NEP) of 1971–90; and a rise in Islamic resurgence, especially among Malay Muslim youth, which has affected not only the non-Muslim non-Malays but also the Malay-dominated state itself.

The NEP created the much-needed ‘economic space’ for the Malays. Its success was totally dependent on state intervention and the critical support of the Chinese business community. What was once known as the ‘Ali (Malay) – Baba (Chinese)’ relationship, Malay-Chinese interaction and cooperation in the business sphere have developed into ‘smart partnerships’ with a win-win result. NEP thus de-ethnicised some aspects of the ethnicised or stereotypical perceptions regarding the economy, both at the macro and micro levels.

For instance, besides Chinese, Malay middlemen are now a common sight in the rural areas. Thus a shortage of rice at the grassroots, for example, is now perceived as an economic problem not an ethnic one. In the past, the problem had always been attributed to ‘exploitative’ Chinese middlemen. Also, the Malays, as the result of the NEP, could now boast their own billionaires, a successful community of corporate players and an expanded middle class. However, what went
unnoticed, as a consequence of the manufacturing-driven NEP, was the explosion of the urban Malay working class, the majority of whom were of rural origin.

The impressive material success of the Malays brought about by the NEP – not unexpected – also resulted in numerous social problems, accentuating old ones and creating new ones, from ‘money politics’ to child abuse. Indeed the speed of the implementation of the NEP and its consequences, both economic and non-economic, impacted different groups within the Malays differently. This comes as a no surprise because the race towards ‘modernity competence’ comes with its own set of costs. For instance, modernisation, instead of increasing secularisation in Malaysia, has increased religious concerns and activities within the community, especially amongst the Malay Muslims.

The rise of a resurgent Islamic movement in the early 1970s, known as *dakwah*, which was originally dominated by Malay Muslim youth (mainly university students), was subsequently embraced and enhanced by the Malay-dominated state. The latter’s *dakwahisation* efforts became obvious in the second decade of the NEP, i.e., from 1980 onwards. This could be perceived as state-sponsored method of coping with the pressures of ‘modernity competence’ demands. It could also be perceived as exploiting local strengths and advantages to complement and colour the ‘globalising’ influence of the world economy. For instance, various types of Islamic financial institutions were established to complement the successful non-Islamic ones, not only for Malay Muslims but also for those interested in saving and investing the ‘Islamic way’. Malaysia’s involvement, at the international level, in Islamic-related activities especially through the OIC (Organisation of Islamic Countries) also increased significantly.

During the NEP, the combined influence of Islamic resurgence and a successful pro-Malay affirmative policy managed to create a heightened sense of Malayness. This in turn generated a new level of confidence amongst the Malays *vis-à-vis* the Chinese and other ethnic groups. Thus the NEP,
according to Prime Minister Mahathir, successfully bred a community of *Melayu Baru*, the ‘New Malay’, competent and confident full-fledged players in the open and increasingly level playing field in Malaysia.

In the 1990s, the NEP, after two decades of dominating social life in Malaysia, was replaced by the NDP (National Development Plan), in effect a watered down NEP. However, the introduction of the NDP also reveals that, in the face of globalisation, the tradition of state-based planned change, such as the NEP, may be coming to an end. Nonetheless, this does not affect the new confidence amongst the Malays. The 1991 introduction by the Malay leadership within the government of ‘*Bangsa Malaysia*’, or ‘a united Malaysian nation’, recognising plurality and differences within the society as a kind of state ideology is indicative of this renewed Malay confidence.

However, ‘Malayness’ was not only about redressing perceived socio-economic imbalances and injustices but also about ethnicity, language, custom, provincial identity, and culture, with Islam as the essential ingredient. Moderate state-defined Malayness is not uncontested. The Parti Islam SeMalaysia, or PAS, the main Islamic party in Malaysia that has controlled the province of Kelantan for decades now, provides the credible alternative version of Malayness. At the everyday level, Islam enjoys a common appeal to Muslims of all classes and background, making it almost impossible to identify which particular ideological interpretation, voice, or personality dominates the grassroots.

Islam has become more visible in Malaysia than ever before. It is not simply a cultural and symbolic entity for the Malays. As a result of policies such as the NEP, Islam has now become an integral part of the modern mainstream economic sphere. The proliferation of Islamic financial institutions, medical centres, counselling and social work services, tourist agencies, clothing, furniture, food and confectionery factories, and supermarkets has expanded the exercise of ‘consuming Islam’ for the Malays from one that is largely spiritual, abstract and symbolic to one that is highly profiled and materialistic.
Southeast Asian-Centred Economies or Economics?

With increased emphasis on Malay and Islamic identity and consciousness in economic and public life, the relationship between the Malay-Muslims and the non-Malay non-Muslims has been perceived, by some observers, as becoming more strained, thus posing a challenge to a united Malaysian nation. But most religious and ethnic minorities have preferred to stay in Malaysia, taking advantage of the booming Malaysian economy. In the popular mind, there seems to be a consensus that no amount of economic loss is worth the sacrifice of any human life.

The recent economic crisis is said to be worse than the one Malaysia experienced in the mid-1980s. But there is little basis for such a comparison. Until the mid-1980s, Malaysia was a struggling primary commodity-based economy. After that crisis, Malaysia enjoyed a decade of uninterrupted, manufacturing-based 8% economic growth. It brought about major transformations within the society as a result of its openness to global influence. Meanwhile, both the state and society developed their own domestic and internal defence mechanisms, based primarily upon locally-generated conservative forces such as ethnicity and religion.

It is within this framework of conservative forces, with ethnicity and religion as the two main components, that the impact of the recent economic crisis on Malaysia has to be understood. We shall now examine briefly how the Malaysian state established and consolidated the conservative framework that seems to have enabled the Malaysian populace, especially the majority and to some extent the elite, to weather the storm.

For this purpose, I have chosen to examine in some detail how Islam as definer of Malay ethnicity came to provide the stabilising umbrella of Malay existence in both peaceful and crisis-ridden moments, including during the current economic crisis.

Consuming Islam the Malaysian Way
Before European domination, when church and state were fused into one, Islam played a pivotal role in all aspects of
social life in Malay kerajaan (state) and society. The British arrival separated Islam from the state. Hence the control of Islam and local customs fell into the hands of the raja while the secular governance was controlled by the British administration. Since then (c. 1850s) Islam began to be perceived as having three different ‘faces’.

The most prominent was its ‘cultural and symbolic face’ – the critical pillar of Malayness. In other words, Islam was ceremonial and ritualistic, important only to Muslims in so far as it involved their intellectual and spiritual life within Malay customs. Islam was for a long time perceived as ‘privately Malay’ and an important social stabiliser, vis-à-vis both the Europeans and other non-Malays.

When the anti-colonial nationalistic movement appeared in the 1920s and 1930s, Islam showed its ‘political face’. It became a force that was able to unite at least a group of the Malay ummah, or community, against colonialism with the intent of ending colonial rule. The idea of an Islamic state was advanced as an alternative to the secular colonial one. Like their partners within the nationalist movement, the ‘Malay left’ and the ‘aristocrat group’, the Islamic group failed to create the ‘Malay nation’.

For more than three decades (1950–80), Islam, despite its position as the official religion of Malaysia, remained at the periphery of major Malaysian social institutions; it was ‘cultural and symbolic’ and used with only limited success as a political platform by an opposition party.

The economic face of Islam rarely made its presence known except in the most indirect manner and within the private realm of the daily practice of Malay culture and customs, such as paying zakat (alms or wealth tax) and fitrah, (personal tax) or giving sadakah (donations) or contributing to the baitul mal (public treasury). It also appeared during wedding rituals in the form of bride wealth and bride price that all bridegrooms had to contribute to legitimise their marriage. The tragedy of death is often complicated and saddened by faraid battle, the fight amongst siblings for a share of the deceased’s property.
Southeast Asian-Centred Economies or Economics?

Malaysia’s most eminent economist, Prof. Ungku Aziz, has often remarked that rural Malay poverty and backwardness is partly related to the small and uneconomic size of agricultural land holdings owned by the Malay peasants fragmented over one or two generations through the faraid process. In this case, the economic face of Islam is perceived as something negative.

However, all this changed following the implementation of a brilliant idea put forward by Prof. Aziz. He suggested that the government set up a special national body to organise and facilitate the annual pilgrimage to Mecca, or the Hajj, for all Muslims in Malaysia. In 1969, a Lembaga Urusan Tabung Haji (LUTH, or Pilgrim’s Management and Fund Board) was established. Muslims who have the material means are obliged to go on the Hajj as demanded by the fifth pillar of the Islamic faith. So, LUTH, besides playing the role of a ‘hospitality agent’ for those going to Mecca, doubled as an Islamic savings institution. It is the latter role that became significant in carving the path for other Islamic financial institutions to emerge about 15 years later.

Thus LUTH’s unexpected economic success enhanced not only Malay economic capability but also the economic face of Islamic, hence Malayness. LUTH success was perceived as the success of a Malay-cum-Islamic financial institution, providing the average pilgrim with a stake in the national economy. By 1990, nearly half a million Malaysians have gone to Mecca organised and facilitated by LUTH. But LUTH’s total membership was even larger, easily three times that. It meant that nearly 60 per cent of the economically active Malay Muslims in Malaysia were saving with LUTH.

However, the big push for Islamisation in Malaysia, as indicated previously, took place in the 1980s. The institutionalisation of Islam, particularly at the national and federal levels, ultimately laid the groundwork for Islam’s intensified role in public life. Many of the State’s Islamization programmes aimed at the defence and promotion of the religion as suited to the established national goal of economic
modernisation. A series of institutional initiatives within the Islamization process supported this strategy, such as the establishment of the Islamic Teachers College (1982), the Islamic International University (1983), the Islamic Development Foundation (1984), and the Islamic Insurance Company (Takaful) (1985).

However, the most important of them all was the creation of an Islamic Bank, or Bank Islam Malaysia Berhad (BIMB). It was established on 1 March 1983 with an initial paid-up capital of RM80 million (equivalent to US$32 million at the exchange rate US$1=RM2.5 then) and authorised capital of RM500 million (then US$200 million). The paid-up capital was held as follows:

Table 3.1: Bank Islam Malaysia Berhad Paid-up Capital (as of 1 March 1983)

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Amount (RM million)</th>
<th>Per cent share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance (Incorporated)</td>
<td>30</td>
<td>37.50</td>
</tr>
<tr>
<td>Pilgrim’s Management &amp; Fund Board</td>
<td>10</td>
<td>12.50</td>
</tr>
<tr>
<td>Muslim Welfare Organisation</td>
<td>5</td>
<td>6.25</td>
</tr>
<tr>
<td>Various State Religious Councils</td>
<td>20</td>
<td>25.00</td>
</tr>
<tr>
<td>Various State Religious Agencies</td>
<td>3</td>
<td>3.75</td>
</tr>
<tr>
<td>Various Federal Agencies</td>
<td>12</td>
<td>15.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>


The federal government, through the Ministry of Finance and the Federal Agencies, held 52.5% of the paid-up capital. The negeri, or provincial governments, through their Religious Councils and Religious Agencies, held 28.75%. The Pilgrim’s Board contributed an amount of RM10 million, or 12.5%.

What is interesting to note here is the fact that Islamic matters and Malay customs rest in the hands of each of the individual negeri, or provincial governments (14 of them) within the Federation of Malaysia, and not in the hands of the
central federal government. In this case, the federal government behaves like one of the negeri and only controls Islamic matters and Malay customs in one of the 14 provinces, namely, in the area called ‘federal territories’ (Kuala Lumpur and Labuan).

However, as we see from Table 3.1, in terms of share held in the initial paid-up capital for Bank Islam, the federal government, whose status with regards to Malay religion and custom is the same as that of any other province in the Federation of Malaya, held the largest share (52.5%) hence the controlling interest. The contribution of the other 13 states when put together totalled only RM23 million, or 28.7%. And since the Pilgrim’s Board has also been under the control of the central federal government since its inception, the controlling interest the federal government has had in Bank Islam is about 65%, a massive proportion. By 1991, the total paid-up capital of BIMB increased from RM80 million to RM133.4 million.

The significance of this activity is that despite its ‘minor’ position vis-à-vis matters relating to Islam and Malay custom, the federal government remains the controller and the manager of the national economy. It is in that capacity that it took the initiative to set up Bank Islam and other economic Islamic institutions (e.g. insurance companies, pawnshops, real estate properties). In fact, in March 1993 the federal government launched an Interest-Free Banking Scheme (IFBS) for the whole country that involved local banks and other financial institutions who were interested in doing business the ‘Islamic way’. The introduction of this scheme marked the takeoff of Islamic banking concepts in Malaysia and paved the way for a parallel dual-banking system, one part Islamic and the other conventional. Undoubtedly, it is the federal government that paved the way for the ‘mainstreaming’ of Islam into the Malaysian economy, strongly supporting it all the way.

Besides setting up an Islamic banking system alongside the conventional one, the federal government, using the IFBS
concept, created a special trust fund to give interest free loans to the very poor (defined as those earning less than RM350 per month, equivalent to about US$100 at an exchange rate of 3.55). Amanah Ikhtiar Malaysia (AIM), a Malaysian NGO, together with a number of Malaysian banks, including BIMB, successfully implemented this programme of interest-free loans for the poor, modelling it on the Grameen Bank of Bangladesh scheme.

The IFBS made loans available to many small and medium Malay businesses, mostly in the rural areas, involved in farming-related activities and in the fishing industry. Both BIMB and other financial institutions which adopted the IFBS made available more than RM10 million at the initial stage.

Bank Islam and its ‘brother’ banks across the Islamic countries were also involved in an international attempt to venture into ‘development banking’, which meant supplying capital for large infra-structure projects run by semi-government agencies or the governments of the OIC.

What I have just briefly outlined has been the nature and extent of the activities of Bank Islam in Malaysia and other financial institutions which have adopted the Islamic banking method. Admittedly, not all the Malay Muslim in Malaysia hold bank accounts either in Bank Islam or the other financial institutions practising IFBS. Equally, these institutions do not exclusively serve Muslims. In 1995, it was reported that nearly 40% of the General Investment Accounts holders in Bank Islam were non-Muslims. This is not surprising given the clients could take home as much as 70% of the profit from the investment rather than drawing a fixed sum based, say of 5% p.a., according to an agreed interest rate.

As this alternative economic/banking system has now operated successfully for more than 15 years in Malaysia alongside the conventional one, it is not surprising to observe that it has blended into the everyday life of Malaysians, or become ‘normalised’. Thus it is no longer perceived as an alternative system, but rather is seen as part of the accepted banking system. Islam and Muslims may still be perceived
Southeast Asian-Centred Economies or Economics?

with suspicion by some groups of non-Muslim Malaysians, but the Islamic financial institutions are not. The latter may have invited stereotypes and suspicion at the early stage but not anymore.

Conclusion: Islamic Rhetoric and the Current Economic Crisis

The recent economic crisis in Malaysia has affected different social groups, both within and across ethnic communities, differently. Some argue that the newly state-groomed wealthy Malay entrepreneurs and corporate players were most hard hit by the crisis. Others contend that it is the members of the large middle-class who are suffering the most as a result of the financial crisis, particularly those who have children studying as private students in the UK and the USA. A number of analysts predict that spiralling inflation will soon occur (still waiting!) that will affect the lower income groups. The alarmists and the prophets of doom even predicted an outbreak of inter-ethnic violence in the not-too-distant-future.

Unlike my more famous academic colleagues in Malaysia, I have not tried to play the role of clairvoyant and predict what shall happen to Malaysian state and society as a consequence of the economic crisis. Instead, what I have done is to sketch the making of Malaysian state and society in the last two centuries, with the hope that this would help us to understand slightly better how Malaysia and Malaysians have coped with a host of crises thus far.

In the second part of the essay, I referred to the term ‘a framework of conservative forces’ that informed the way the Malaysian state managed itself, in which I highlighted ethnicity and religion as the critical elements. There are other major elements within this framework, such as strong bureaucracy and coercive regulations. Together, these four elements – ethnicity, religion, strong bureaucracy and forceful regulations – become the all-important mould which shapes the materialistic/economic aspect of Malaysian social life. Often times it works the other way too, especially in the contemporary era of globalisation.
The existence of this framework has enabled Malaysia to bring a certain amount of authority and effectiveness to bear on any major problem or crisis (economic and non-economic) that has occurred in the country since May 1969. Thus this ‘framework of conservative forces’ has been perceived by the state as necessary in view of the fact that Malaysia is always in ‘the state of stable tension’. The potential for conflict to develop and escalate into violent ethnic encounters, as witnessed in the past, has been brought under control. However, it is not uncommon for the state to use this framework, or any of the four mentioned elements, to its political advantage and to justify its less than acceptable activities.

It is equally important to recognise that in the past opposition forces in Malaysia have found ample political space to contest the state’s dominance and abuse of the bureaucracy or regulations using ethnic and religious arguments. This is due to the fact that Malaysia is a federation, with each negeri or province in Malaysia enjoying a certain amount of autonomy, particularly with respect to religion and ethnicity. (Kelantan and Sabah are two examples that come to mind).

What all this adds up to is that in dealing with any crisis such as the current economic one, Malaysia – both state and society – will automatically work through the crisis within this framework of conservative forces. It is not only during times of crisis that the state and society resorts to this framework, however. It does so too during the longer periods of relative tranquillity. In other words, the state and society continue to be vigilant to defuse any form of crisis that could turn into ethnic conflict, and to seek ways and means to minimise the possibility of such a crisis occurring.

The presence of Islamic financial institutions has provided an economic alternative to the Malaysian public, both to Muslims and non-Muslims, for some time now. This served them well during the recent crisis because the Islamic financial institutions have been involved mainly in low-risk financial and banking activities. Thus the system has, as it were, an in-built ‘protective system’ that has saved subscribers from the
Southeast Asian-Centred Economies or Economics?

ravages of the high-risk activities of the conventional banking system. These financial institutions, such as Bank Islam, generally do not provide massive loans to Malay Muslim political cronies. First, they are not permitted to, and second, due to religious conviction these cronies would not even consider abusing the banks.

Mahathir’s recent rhetoric on how Islam could help resolve Malaysia’s current economic woes is aimed largely at the growing Malay middle class and the large Malay working class, both of whom are urban dwellers and have not really been affected by the economic crisis, especially if they subscribe to the Islamic financial system. But he also knew that quite a large number of non-Muslims are subscribers, too. He was really appealing to them all to be the ‘stabiliser’ in an unstable situation, or according to him ‘the voice of reason and rationality’. Of course, he said all this while the state was simultaneously propping up and bailing out the overzealous Malay Muslim corporate players whom Mahathir identified as the group that needed the most help because they have been the largest contributors to the government’s tax base. It is also well known that these corporate players have been ‘large contributors!’ to UMNO (United Malay National Organisation), the dominant party in the Malaysian ruling coalition, the National Front, of which Mahathir is the president.

In his interview with Greg Sheridan, published in The Australian, Mahathir said that world society has denied him his right to speak because every time he did the Malaysian ringgit fell. So he is forced to stop airing his views about the West to avoid Malaysians being punished. The ringgit has improved against the US dollar in the last six months. Whether this is due to Mahathir not talking anymore is a moot point. It could be that the ‘liberal forces’ in the developed world are in favour of Mahathir’s more intellectually-inclined and suave deputy, Anwar Ibrahim, although not so long ago Anwar was branded by the same people as Islamic fundamentalist.
Shamsul A.B.: Consuming Islam and Containing the Crisis

Surely, someone is benefiting from the crisis! After the recent dramatic events in early September, we wonder who.

Discussion

Comment: The use of one’s own capital makes for a more stable economy in that one is encouraging the generation of domestic savings and at the same time has a check in citizen interest on too extravagant use of these savings. Although not Islamic, we have also observed in Thailand the Thai Credit Union, i.e. small-scale and communal saving, is thriving. One might claim that the strength of the ‘new religion’ is measured in economics.

Response: Actually in Islamic banking the whole resolves about the fact that taking interest on loans is *haram*, leads to both theological definitions on interest as well as societal interests in equity and welfare.

Question: What happens to such schemes in terms of ethnic conflict?

Answer: Laws, laws, and more laws! Laws to cover every conceivable possibility. Do you know that Malaysia is one of the most law-intensive nations on earth? For example, we still have laws from the martial law period against more than three people assembling. So if you go to the park some night with two couples you could be in for a shock. Better go with one couple, but then you could have other laws to contend with!

References


Southeast Asian-Centred Economies or Economics?


Shamsul A.B.: Consuming Islam and Containing the Crisis


The Asian Economic Crisis and the Crisis of Analysis
A Critical Analysis through Buddhist Economics

Apichai Puntasen
Thammasat University, Bangkok

To be a tiger is not so important. The most important thing is that we have enough to meet our own needs, and the economic means for self-sufficiency. (King Bhumibhol’s speech, 4 December 1997)

The economic crisis in Thailand has been analysed by a leading Thai economist, Ammar Siamwalla (1998: 1–7), as economic mismanagement by the Bank of Thailand, beginning with its decision to liberalise the Thai financial system. Its first move was to accept the obligations under Article VII of the International Monetary Fund in 1990 requiring the lifting of all controls on foreign-exchange transactions. The second was the opening of the Bangkok International Banking Facility (BIBF) in 1993, designed to make Bangkok a centre for financial services by encouraging foreign financial institutions to set up operations in Thailand. As a result, most foreign exchange control measures were removed at that time. In 1992 all ceilings on interest rates were removed. Subsequently, weaknesses appeared in the stock market where control measures against speculation proved to be insufficient, resulting in speculative fever from 1993 to 1995.

One of the most serious errors committed by the Bank of Thailand was pegging the exchange rate to the U.S. dollar while the Thai monetary system was undergoing liberalisation.
Maintaining a fixed exchange rate in the early 1990s when the domestic interest rate was much higher than the rate available in international markets resulted in short term foreign loans flowing in to take advantage of the difference between the two rates. Worse still, most of these short term loans were used to finance the inflated real estate sector and speculation in the stock market. These problems were initially concealed by the strong performance of exports from 1992 through 1995, but in early 1996 exports began to slow down (partly due to the appreciation of the U.S. dollar, to which the baht was pegged). The complete halt of export growth in 1996 exposed all the problems. By that time, however, the country already accumulated a foreign debt of 80 billion US dollars, the majority of in the form of short term loans.

Beginning in November 1996, waves of attacks were made against the baht in hopes that the Bank of Thailand would be forced to devalue it. Each wave was met by a strong defence from the bank, but by the middle of May 1997 the Bank of Thailand had almost depleted its net reserves of 33.8 billion U.S. dollars. Eventually the bank was forced to float the baht (in July 1997), and the by now familiar series of financial crises ensued.

Internationally, this crisis can be analysed in a slightly different light. Although its immediate catalyst may have been mismanagement of Thai monetary policy, the crisis was widely expected to occur eventually. With economic globalisation, goods and money are allowed to flow freely anywhere in the world, and greed can be generated without restraint or control, especially by those who control capital (Korten 1996: 71). In a world of integrated economies, those who have capital are bound to be in an advantaged position. When economies are merged, capital can flow to whatever localities offer maximum opportunity to externalise costs. The basic consequence is the shift of costs from investors to local communities (Daly and Cobb Jr. 1989: 209–35). In these circumstances, economic crises will strike net capital receiving countries sooner or later, regardless of the performance of the economic managers.
Southeast Asian-Centred Economies or Economics?

Apart from maximising the opportunity to externalise costs, the free flow of foreign capital can easily generate economic instability (the problem faced by Thailand in the current economic crisis). The internationalisation of capital and the internationalisation of finance since World War II have turned capital into a footloose factor of production. The quick mobility of capital across the globe from low return investments to higher ones – often to engage in speculation in insecure markets – results in economic instability in the countries which experience massive and rapid inflows and outflows of capital (Freeman 1996 and Felix 1994: 365–94). At the macro level a country with sufficient domestic savings like Japan, Taiwan, or Singapore, will be less affected by this type of capital flow.

Both the adverse economic consequences imposed by foreign capital taking advantage of low external costs and the quick mobility of capital can cause economic instability. These facts point out serious flaws in the standard 1980s model of economic liberalisation that tends to emphasise quick growth over consideration of economic stability or long term sustainability. This is why Southeast Asian-centred economics (in the case of Thailand, Buddhist Economics) based on the curtailment of greed needs to be closely scrutinised.

Buddhist Economics

By applying a Buddhist paradigm of human nature, Buddhist Economics provides a new way of understanding economics. Not much can be argued against the analytical process currently employed by most economists, since the general rules of logical deduction are as well applied in this subject as in any other. However, some basic assumptions – especially those concerning human nature – have been adopted by mainstream economists with insufficient scrutiny. Most of them have been taken more or less on face value and in accepting them, economists have built their sophisticated analyses on a flimsy foundation. As a result, many conclusions
derived from the analytical process in economics cannot withstand critical challenge. Parts of the basic assumptions made in conventional economics about human nature do not correspond to actual human behaviour, and some even contradict natural laws. This results in weaker explanatory power of conventional economics.

Replacing these problematic assumptions with ones from Buddhism that more accurately reflect true human nature and natural laws can enhance the explanatory power of mainstream economics, at least in Southeast Asian countries. This is why the modified subject should be call ‘Buddhist Economics’. The concept is slightly different from that of ‘Economics for a Buddhist’ because the latter would not deal squarely with the deficiencies of mainstream economics. It would merely investigate economics from the point of view of a Buddhist who has certain sets of values and beliefs. It would not attempt to investigate either Buddhism or economics in depth.

Without a direct challenge to existing paradigms in economics, the analytical weaknesses in mainstream economics are not likely to be exposed. ‘Buddhist Economics’ prepares to take up the challenge by pointing out the fundamental weaknesses in mainstream economics and replacing them with more realistic concepts available in Buddhism. This is then, in part, an effort to ameliorate the crisis of analysis that plagues the current economic crisis in Asia.

The Division between Positive and Normative Economics as a Fundamental Weakness

The crisis of analysis in economics is party rooted in the strict division between positive and normative economics. Positive economics is defined as analytically objective, sometimes called ‘natural law’ without any value judgement. The concept is in contrast with normative economics which incorporates opinion and value judgements. The division between these two results from the lack of coherent understanding of true human nature.
Positive economics assumes ‘greed’ or to put it more mildly, ‘self interest’ as a cardinal feature of human nature that directs most ‘rational behaviour’. As a result, utility maximisation is considered to be rational behaviour. According to Jeremy Bentham, each person is essentially a self-serving unit – all individuals are driven by the desire to do things which serve their own best interests. This desire to seek pleasant experiences and to avoid or escape from painful ones (Bowden 1990: 77) is taken as the starting point of positive economics.

One may question further whether the ‘law’ propounded by Bentham is really a ‘natural law’ that will be true in all cases without exception. Should any individual who behaves differently from this be considered an exception to this law or be seen as a person behaves irrationally? Can there be different patterns of human behaviour than utility maximisation? Other patterns of human behaviour exist (for example, loving one’s arch enemies, or working hard for the sake of the others while living frugally); should those behaving this way be judged irrational, or are they simply the exception to the general rule? The fact that these behaviours exist at all directly contradicts the assumption made in positive economics about human nature. Therefore, should one conclude that positive economics is only “positive” because it complies with its own rule by its own definition? If so, one may ask how “positive” positive economics is. Most mainstream economists do not want to face such difficult questions. They prefer to accept the concept at face value and proceed straight to the analytical development of their models, where they find that they are in the position to have full control of their own arguments. But building models based on a shaky foundation will never result in any firm conclusions.

A more refined version of utility but not less ambiguous is the one advocated by Boulding.

Economics clearly recognises that all material objects are intermediate goods, mere means which serve the end of increasing that ultimate spiritual product known technically
as ‘Utility’. The economist does not know what utility is, any more than the physicist knows what electricity is, but certainly could not do without it. (Boulding 1968: 193–94)

Not many economists even contemplate this definition, rushing to the mechanistic part shown below.

**Mechanistic Procedure**

Given the starting point of positive economics, the utility function of an individual can be defined as follows:

\[
U = f(X)
\]

where

- \( U \) = utility
- \( X \) = a commodity
- \( j \) = \( 1, 2, 3, \ldots, n \)

The goal is to maximise utility within a set of budget constraints which are defined as:

\[
b = \sum_{j=1}^{n} P_j X_j
\]

where

- \( b \) = total budget
- \( P_j \) = price of commodity \( X \)

Mathematically:

Maximize \( U = f(X) \)

Subject to \( b = \sum_{j=1}^{n} P_j X_j \)

In order to simplify the mathematical operation assume two commodities exist as follows:

Maximize \( U = f(X_1, X_2) \) \hspace{1cm} \ldots \hspace{1cm} (1)

Subject to \( b = P_{X_1} X_1 + P_{X_2} X_2 \) \hspace{1cm} \ldots \hspace{1cm} (2)

The mathematical condition for maximisation
Southeast Asian-Centred Economies or Economics?

The mathematical condition for utility maximisation is the point at which the ratio of marginal utility to price is equal for the two commodities.

In addition, the following set of assumptions has been made:

1. The utility function is continuous and ‘smooth’.
2. \( \frac{\partial U}{\partial U} > 0 \), i.e., the more commodity consumed, the higher the utility.

The mathematical condition for utility maximisation is the point at which the ratio of marginal utility to price is equal for the two commodities.

In addition, the following set of assumptions has been made:

1. The utility function is continuous and ‘smooth’.
2. \( \frac{\partial U}{\partial U} > 0 \), i.e., the more commodity consumed, the higher the utility.
3. $\frac{\partial U^2}{\partial U_j} < 0$, i.e., the marginal utility increases at a decreasing rate (commodities have diminishing marginal utility).

4. $dU^2 < 0$, i.e., the utility function is convex.

These assumptions are made for the convenience of the mathematical operation. The operation itself is a ‘positive’ operation; the assumptions do not imply any positive rule of the utility function itself. Unfortunately, once the set of assumptions have been overlooked or forgotten, the rule itself has already been interpreted as a positive rule.

Observe also that the above rule is very rigid because it is designed to generate a set of well performed mathematical properties and not necessarily reflect real world situations. For example, it is impossible to discuss efficiency in consumption based on the specific nature of the utility function. Utility functions are rarely actually continuous and ‘smooth’. Lastly, the assumption of $\frac{\partial U}{\partial U_j} > 0$ (the more, the better) is only true in isolated cases of particular commodities. Normally, what goes into a person’s consideration in acquiring a commodity for consumption is much more complex; no economic decision is a purely isolated one. Unfortunately, most mainstream economists choose to forget the above set of rules because if they relax the assumptions, the foundation of their basic ‘belief’ will be shaken. As well as trying to avoid being normative in their ‘belief’, they have made their ‘belief’ a positive rule through a mechanistic procedure. But this positive rule does not actually contribute to a more solid foundation in their analyses.

The Instantaneous Nature of the Utility Function

Observe also from the utility function above that it contains no time element, implying that it is instantaneous. A person will enjoy, be happy, gratified, satisfied, or delighted by the consumption of a commodity or a service instantly. The condition will decline afterward. Note also that many words are used to convey satisfaction at the time of consumption. None of them carries the meaning of ‘utility’ because utility
Southeast Asian-Centred Economies or Economics?

is in fact an ambiguous word without any clear meaning (as Boulding observed above).

Two properties – the fact that this function involves no time dimension and the fact that it is not comparable across individuals – have made the concept rather absurd in the face of ‘scarcity’, the most important reason for the study of economics. Under the general condition of scarcity of resources this function cannot make any value judgements as to whether, for example, to devote limited resources to efficient food production or to the production of luxury cars that require a huge amount of resources. Should scare resources be used to feed the poor or to provide luxury cars to the wealthy? Any layman with common sense will agree that the limited resources should be devoted to produce food for the poor rather than producing luxurious cars. However, if a mainstream economist cannot provide a satisfactory answer to this obvious question, one should question the logic of their thinking or question the basic assumptions used to formulate their theories.

The Question May Rest on Pleasure and Pain

Jeremy Bentham argues that people will seek to maximise their pleasure and to minimise their pain based on their previous experiences. This argument concept is widely accepted in the Western world and is considered rational human behaviour. However, if the concepts of ‘pleasure’ and ‘pain’ are replaced by slightly different words with the vastly different meaning of ‘happiness’ and ‘misery or suffering’ will there be any significant change in the conclusion? Suppose the proposition is made that humans seek to maximise ‘happiness’ and to avoid ‘misery’ or ‘suffering’, would there be any change in the conclusion discussed above? An immediate response would be to question the meaning of ‘happiness’ and ‘misery’. The these two concepts are only available in the East, especially in Buddhism.

In Buddhism, only ‘misery or suffering’ needs to be defined. It is like a temperature. One only needs to specify the level of heat. With less heat it will be more cool. Similarly, with less
misery there will be more happiness. Therefore in Buddhism to minimise misery is to maximise happiness, the way minimising cost is equivalent to maximising profit in mainstream economics.

‘Misery or suffering’ is defined as a state of conflict or contradiction of an individual (Phra Rajvaramuni 1983: 21). The cardinal conflict of all occurs when a person believes that there is such a thing as a ‘self’ and tries to hold very tightly to it. According to Buddhism, there is no such thing as the self. What could be perceived as the self is in fact a temporary composition of the ‘five Aggregates’: corporeality; feeling or sensation; perception; mental formations or volitional activities; and consciousness (Phra Rajvaramuni 1983: 15). Without any one of them, a person will not fully exist. From one second to the next, no person is the same because each element in the composition has already changed. The insistence on the temporary or impermanent composition of the ‘Five Aggregates’ follows from a natural law stating that everything is impermanent, changing all the time (Phra Rajvaramuni 1983: 20). Given that everything is constantly changing, it is better to acknowledge the change and regard everything as impermanent including one’s self. If a person tries to cling to the self when everything is changing, the result will be conflict or contradiction with the natural law of change or impermanence. The more a person tries to cling to the self as if it really existed, the more likely that person is to generate suffering or misery through the three evils: desire or greed; hatred and anger; and delusion. These are the real causes for misery (Phra Rajvaramuni 1983: 31).

On the other hand, to be happy is to be free of desire or greed, to be without anger or hatred and to be clear of delusions (Buddadhasa 1996: 23 and Phra Rajvaramuni 1983: 28). The utmost act of emancipation for human beings is to free themselves from these three evils. If an individual has not yet been emancipated it is likely to be because they lack the right knowledge (Phra Rajvaramuni 1983: 31). The most important knowledge of all is the knowledge that there is no
such thing as a ‘self’. As there is no ‘self’, one cannot be ‘selfish’ or greedy (Phra Rajvaramuni 1983: 32).

According to Buddhism, humans are at the highest stage of development of all living creatures. Because of this specific nature, a person has the ability to learn, or to develop the ‘Five Aggregates’, indefinitely (Phra Dharmapidoke 1993: 34–36). Because of that, humans can never be considered irremediably incapable of development. The rate of development for each one can be different but all can be developed indefinitely. Due to this important quality, the only reason for people to behave or react differently than they should have is inadequate knowledge. If a person has proper knowledge, they will react differently. As a result, the proper remedy is to generate ‘learning’. And the most important learning method in Buddhism is learning through actual experience or through advice from good friends. Good friends can be a person’s parents, teachers, friends and associates or learned persons who have good intentions towards that person (Phra Dhebhvethi 1990: 16–17).

What I have discussed above is the fundamental teachings of Buddhism that are most relevant to the concept of utility maximisation. The mainstream economic concept of seeking pleasure and avoiding pain is a rather shallow one that does not reach the inner core of human nature. The Buddhist notion that humans should liberate themselves from misery in order to attain permanent happiness is a superior concept. The cause of misery most relevant to economics is desire or greed. The concept of ‘happiness’ in Buddhism discussed here does not match the one in the West that normally carries the wide range of meanings discussed earlier such as enjoyment, gratification, satisfaction, passion or fascination. It is little wonder that the concept of ‘efficiency in consumption’ cannot be adequately explored in mainstream economics.

Efficiency in Consumption Explained in Buddhist Economics
There are actually two levels of misery in Buddhism. The first level of misery is comprised of physical problems caused by
deprivation of basic needs like food, clothes, shelter and medicine. A person will suffer severely without adequate amount of food. It is said in Buddhism that the misery of inadequate food is the worst misery of all, since hungry people have no way to organise themselves or develop their minds (Phra Dharmapidoke 1996: 6). The less severe case is deprivation from medicine, clothes and shelter, respectively. The misery caused by physical deprivation must be solved by providing what a person needs. There is no other way to get around this problem. The needs must be satisfied. These needs are known as ‘essential needs’. However, for the second level of misery, discussed above, desire has been propelled by greed resulting from ignorance of the natural law that there is no such thing as ‘self’. Greed or desire may burn people inside if their artificial want is not satisfied (Phra Dhebhvethi 1990: 79–81). However the physical part of that person will not be affected by such deprivation because the physical is separate from the mental and emotional. Most likely, a person will not die from the deprivation or the suppression of such desire. Of course, the true remedy is to help the person to be able to realise the existence of the natural law of selflessness on their own. To supply a person with what they desire will not solve the problem; in fact it will aggravate the problem.

Even by applying this case to the utility function of mainstream economics to this case, a person will only achieve an instantaneous gratification when a desire is satisfied. Because previous desires have been satisfied, higher levels of desire will spiral within a person, leading to endless greed. A good mainstream economist will argue that budget or income constraint will serve as a barrier to prevent the flood from such spiralling desire. Unfortunately, for many people before income constraints have an effect, considerable damage has already resulted from the drain on resources required to produce commodities to satisfy such insatiable desires.

It is quite clear from the above discussion that ‘efficiency in consumption’ is the consumption that satisfies basic essential needs (first degree misery) and that does not satisfy the demand
Southeast Asian-Centred Economies or Economics?

(even if backed up by sufficient income) generated by ‘artificial’ want (second degree misery). For the reasons explained earlier, this problem cannot be treated adequately by mainstream economics.

Without proper treatment of this issue, discussions of efficiency in production in mainstream economics are analogous to cutting paper with one-bladed scissors. In order to provide more sense to the discussion of efficiency in production, efficiency in consumption must be equally and clearly defined. The concept can only be adequately treated by Buddhist economics. The real weakness of mainstream economics derives from its failure to engage in as thorough an analysis of human behaviour as that found in Buddhism.

**Reasons for Different Levels of Investigation**

Mainstream economics, in spite of its claim to be a value free or positive science, does in fact have its cultural roots in the evolution of Western culture, which can be characterised by the following statements:

1. Self-interest is a normal human impulse that reflects one’s true nature.
2. Individualism, individual rights and freedoms, and property right are a fundamental part of human existence and must be protected and not infringed upon.
3. The institution of the family is the most important institution for the continuation of human society.
4. The ability to control nature will improve the quality of the physical part of one’s existence.
5. Technology is the most important tool for the control of nature.

Many hypotheses have been advanced in an attempt to explain the cultural roots of the West. Among many convincing arguments, climate difference – the need to survive long cold winters experienced by people in the West – seems to offer one plausible explanation. Accumulation of food, fuel and clothes for the whole family to survive the long winter
was an essential activity. The whole family had more time together during the winter, with more time for reading, writing and reflection during those long months. Any successful attempt at controlling nature would generally lead to an enhancement in the quality of life. As a result, technology was innovated and developed for that purpose (Phra Dharmapidoke 1998: 54).

Such a culture is radically different from those in the East where most people live in tropical climate and some live in temperate climate. There has been no pressure on the food supply all year round. Sharing food as a method to improve food security for people who live in tropical climates makes it appear as if they are more inclined towards caring and sharing. Since nature has not been so hostile to them, there is no need to control nature; people seek to live in harmony with it.

In a tropical climate, people live in a more closely knitted community. The communal life receives much more emphasis than that of a family unit or even individuals. As a result, communal ownership in the past was much more important than private ownership. Under these circumstances, physical difficulties or troubles were not a real threat to Eastern people. Yet, under this situation of physical convenience, they are still not fully satisfied. They were troubled by what burnt inside. Investigation into the real cause of the problem must be more than skin deep. It must delve deeply into the human soul. The culprits to be discovered are the three evils: greed or desire, hatred and anger and delusion. This is why the treatment for misery or suffering in the East must be done at a different level than in the West, where the cause of inner suffering can hardly be investigated.

Unfortunately, the sharp contrast between the two cultures (East and West) has been diminished by the emergence of capitalism. At its inception in early sixteenth century Europe, John Calvin engineered a modified Christianity (his invention of ‘Puritan Ethics’) in order to accommodate Christian middle class sentiment in Europe as well as to facilitate the accumula-
tion of capital (Tawney 1922: 91–111). A factory process introduced by the industrial revolution in the eighteenth century resulted in mass production. Mass production provided a big push for industrialists and businessmen to encourage increased consumption through massive advertisement campaigns. As a result, consumerism is inevitable. During the development of three modern evils, capitalism, industrialism and consumerism, money had its own evolution from being as a medium of exchange to acting as a store of value, to being capital that can generate further earnings, and most recently as a commodity that can be used for speculation. Its form has undergone significant transformation from that of shell, animal and primitive commodities to silver and gold, banknotes and credit cards. The latest evolutionary form of money is an electronic digital figure with the ability to move instantaneously almost everywhere on the face of this globe.

Needless to say, the evil four, capitalism, industrialism, consumerism and the continuous evolution of money contribute to the corruption of the human mind in both the West and the East. The problem is more severe one in the East, since there they are still quite inexperienced with the development of the evil four within a rather short span of time. Unlike in the West, where the evolution has been rather gradual since the early sixteenth century, the East in most cases, it occurred within the period of only one century.

Therefore, the impact tends to be more severe in the East than that of the West and it will continue to cause more damage to the East for quite sometime to come. The existence of the modern evil four is the major factor responsible for the unification of the two formerly sharply contrasting cultures of the East and the West. Even more problematic than the coalition of the two contrasting culture, however, is the rapid degeneration and degradation of global resources and the environment brought about by the modern evil four. This degradation has set a limit to the life span of our common spaceship, the Earth; a limit which calls for the modification of our common culture, if human race is to survive. This is
why the revival of Buddhist economics is called for in a similar manner as the old Lutheran movement at the dawn of mercantilism (Tawney 1922: 73–91).

**The General Application of Buddhist Economics**

As with the emergence of capitalism at the dawn of mercantilism that prompted John Calvin to modify Christianity to accommodate changes in the middle class, this time the fact that no known ‘new colony’ exists on this spaceship Earth prompts calls for speedy modification of the usually slow-reacting conservative mainstream economics. As already discussed, mainstream economics has no analytical tools to deal effectively with the rapidly changing situation, as its operation is much more mechanistic and its guiding light the outdated and dubious concept of utilitarian philosophy invented at the time of scarcity in Europe.

Although Buddhist teaching is even older, it has become more contemporary because it was invented during a time of plenty in the East. We are now living in a plentiful time, but catastrophe is right in front of us. It is a rather new but also a rather strange situation. Because of this specific set of circumstances, Buddhist economics is the most appropriate tool to deal with the problems now confronting us.

Its analytical tools only require people to be alert to the fact of the existence of a natural law concerning the non-existence of ‘self’. If this concept is clearly understood, human life could be view from a different point of view than that of consumers. The most meaningful things in life do not have to come from consumption. Appropriate consumption can be done without much destruction of resources and the environment. In fact, resources and the environment can be upgraded while people live happily by being clean, calm, clear and very creative. However, to begin on this new path of thought one must be awakened to true human nature and the law of nature about ‘self’ and everything else. The law of change or impermanence and freedom from delusions generated by mainstream economics and the existence of the four evils
Southeast Asian-Centred Economies or Economics?

(capitalism, industrialism, consumerism and money) must be widely propagated.

Out of the Crisis: The Buddhist Economics Way

As already shown in Buddhism, to try to satisfy greed as the method to maximise utility does not lead to maximising happiness or minimising suffering on part of each individual. At the same time, inefficient or wasteful use of resources and the environment is also a consequence. The only way out of this problem is to cultivate ‘panya’ or intellectual ability and the ability for critical analysis. Once a person understands life in its actual nature and understand clearly the concept of ‘non-self’, a person will not cling to the self. Greed will not be easily stimulated. As a result, consumption patterns will gradually orient themselves toward real needs rather than artificial desires (Phra Dharmapidoke 1993: 21–22). Thus, the cultivation of ‘punya’ or critical analysis is essential for turning the current crisis in Thailand as well as in the rest of Asia into an opportunity. The ‘panya’ cultivated will serve as a potent immunisation against the disease spread by ‘footloose’ or quick mobility of global capital. Such quick mobility of capital has been the primary cause of the crisis activated by greed through rapid growth in region, a decade before the crisis. Unfortunately, such rapid growth was simultaneously accompanied by rapid accumulation of waste and destruction of resources in the region. Clearly, the fresh approach to development for Thailand and the Asian region is needed after all the nonsense. Under the new direction of the development, King Bhumibhol of Thailand explained in the speech on his birthday eve on 4 December 1997, ‘a self-sufficient economy does not necessarily mean that every family must grow their own food and make their own clothes, but the village or the district must produce enough to satisfy their own needs. Items produced beyond what is needed can be traded for other necessities. Nevertheless, trade should not be conducted with the too far away places to save transportation costs’ (The Royal Speech 1997: 18).
Phra Dharmapidoke (Payut Payuto 1996: 52–64) has proposed the concept of ‘economics of the middle path’. ‘Middle path’ is a very crucial concept in Buddhism which literally means not taking any extreme position. It could easily be equated to the ‘point of equilibrium’ in the mainstream economics. According to Phra Dharmapidoke (Payut Payuto), an economics of the middle path implies moderate consumption that will result in optimisation of ‘quality of life’ (maximise happiness or minimise suffering). Such moderate consumption must be done strictly under the condition of non-exploitation of oneself and others. In other words, consumption must not result in adverse effects on the ecosystem.

Concepts advanced by King Bhumibhol and Phra Dharmapidoke (Payut Payuto) serve only as examples of how to apply Buddhist economics for a new direction of the country’s development in order to ease out the current crisis as well as to pre-empt any possible economic crisis in the future. Actually, some of the concepts have already been experimented with in Thailand for more than a decade now, especially by small farmers. Various forms of eco-farming such as forest agriculture, mixed farming and integrated farming have been introduced in Thai villages (Puntasen 1996a: 85–91 and Puntasen 1996b: 279). The results so far have been rather satisfactory. Most of those who began practising eco-farming in Thailand a decade ago experienced almost no negative impact from the current crisis. In fact, most of them are better off because of the deflation of the baht while inflation does not keep pace with the deflated currency. As a result, their real income increases from the increased price of their produce while their costs remain unchanged due to the fact that they did not use any imported fertiliser or other imported chemical inputs.

Other activities curtailing the effects of the current crisis include the rapid increase of saving groups, credit unions and their networks. Such activities began to spread very rapidly less than a decade ago. Most groups had a very humble beginning. They are initiated by members of the community being requested to save a very modest sum of money like 10
Southeast Asian-Centred Economies or Economics?

baht (about 25 U.S. cents at the current exchange rate) per family each month. The responsibility is on the families to save the money by themselves. The main purpose has been to urge people to come to meetings to discuss the problems they have faced as the way to exchange ideas as well as to try to find solutions. By the time a sufficient amount of funds has been accumulated, members of the group are likely to know each other very well and have already shared many useful ideas. Many useful investment projects have already been thoroughly scrutinized. By then, it is time for the money to be lent to the most promising investment projects. Most of the projects have been very successful. As a result, among most saving groups, especially in the South, some funds have now accumulated more than 10 million baht for their group, with some funds higher than 50 million baht. It is now estimated that the total amount of funds in all these saving groups and credit unions is more than 3 billion baht. The absolute amount of capital is still very small in comparison with the magnitude of the current crisis, which is estimated to be 4 trillion baht, but it represents an important development in economic practices.

Clearly, the potential of these saving groups and their networks is very great. Up to the present, the record of defaulting on debts has been negligible; the system has been quite cost effective since overhead only involves a tiny fraction of the total amount of the fund, as operating costs only occur once or twice a month and the wage or honorarium charged is not as high as that of commercial operation. The whole system is based on communal trust. Many of the groups begin to provide basic social safety nets to members such as funeral costs, partial compensation for health care costs, partial compensation for educational costs, and a small pension for elderly. One can imagine that with rapid expansion of such saving groups and their networks, together with the self-sufficient economy at the village or district level suggested by the King, the need to depend on foreign capital in the future will be gradually reduced. However, the practices discussed above must be within the framework of the ‘economics of middle path’ or
Buddhist economics where consumption must be undertaken in such a way that no adverse effect results on individual ‘happiness’ (quality of life) or on the ecosystem. This is a fresh approach to development and a possible strategy to reduce the severe impact of the current crisis. The only requirement for this approach is a fresh look at life, the clear understanding of relevant natural laws, and the willingness to ‘enjoy’ life intellectually in a more consistent way with these laws.

Conclusion
The current economic crisis in Thailand and in Asia can be viewed as an opportunity for a fresh look at a new development approach rather than simply as a threat to the existing and decaying economic system. The crisis has led to the issue of crisis in the analysis itself. Modern economics that has been facilitated by the four modern evils, namely, capitalism, industrialism, consumerism, and rapidly changing forms and functions of money, has resulted in the stimulation of greed generated by human ignorance about the concept of non-self and some related natural laws.

Within the realm of mainstream economics, this ignorance has been reinforced by the ambiguous concept of utility, which is not well understood, even by most economists themselves. The concept can be crudely explained as being allowed to enjoy as much consumption as one wants as long as goods and services to be consumed are within one’s budget constraints. There can be no comparison between one’s and another person’s enjoyment. As such, the concept of ‘efficiency’ in consumption cannot be meaningfully discussed within the framework of mainstream economics. The concept of resource cost for consumption cannot be validly discussed. Hence, discussion of overall ‘efficiency’ is meaningless, as one can only validly discuss ‘efficiency’ in production.

Buddhist economics can deal with this problem much more effectively through the concept of maximising happiness or minimising suffering (instead of maximising ‘utility’). It first defines suffering as a conflict or contradiction to a natural
law of change or impermanence, in order to understand that there is no such thing of self or a ‘non-self’, another natural law. The concept further leads to the discussion of essential needs. The first level of suffering must be addressed by filling needs, but the second level of suffering comes from an artificial want or desire. To try to satisfy the latter will result in escalation of the desires stimulated by the four modern evils, especially consumerism and money. The Buddhist method of treatment is to suppress artificial desires through awareness that the concept of the ‘self’ is in fact an illusion. As artificial desire is reduced, ‘economics of middle path’ can easily be realised. It will make much more sense, then, to begin to develop a self-sufficient economy. In Thailand this has already begun, as demonstrated by the cases of eco-farming for small farmers and networks of saving groups. The current economic crisis in Thailand can be seen as a crisis of mismanagement especially by the monetary authority within the existing frame of analysis. However, at the international level given the rapid mobility of capital, the crisis would have taken place in one form or another due to the massive exploitation of resources from weaker economies and the instability and vulnerability of small economies that are the net receivers of foreign capital. The nature of the crisis has posed a serious question of sustainability not only for Thailand but the whole Asian region.

This is why Asian-centred economics needs to be re-conceptualised. As it turns out, Buddhist economics appears to provide a much more explicit concept of ‘happiness’ and ‘suffering’ than that of the ‘utility’ and can result in a solid discussion of ‘efficiency in consumption’ that leads to ‘overall efficiency’ in conjunction with ‘efficiency in production’, the usual concept available in the mainstream economics. With this new approach, not only can the current crisis be minimised but long term sustainability can also be ensured.

Discussion
Comment: What you have mentioned here is efficiency when oriented to resolution of basic needs, which brings up the
distinction between efficiency and effectiveness. In addition, the two apply to the different sectors of consumption, which your paper address, and production, which is more usual orientation when dealing with Southeast Asia.

Another key issue raised here is within the realm of the sociology of knowledge. Obviously Foucault’s observation on the power/knowledge relation is of considerable interest here, even though he said surprisingly little on the colonial or neocolonial relationships. More specifically there needs to be a clear delineation of what is particularly western and what eastern within supply and demand side economics.

Comment: As a mainstream economist, I find your concept a fairly bold statement indeed. Whether or not it will become accepted and acceptable (and threaten our jobs!), I will be quite curious to see how you develop it more thoroughly.

Answer: So will I! One is so bored with supply side economics that concern with demand and its relevance to the majority of the population should be emphasised.

Comment: Maybe we are witnessing the death of (mainstream) economics; it cannot predict and is almost always wrong. Can this then be a science?

Question: What is the solution?

Answer: According to Prawes, a well-known scholar in Thailand, the cause of the problem is the existence of a command society with vertical relationships which lacks the horizontal connections needed to deal with the modern world. Hence the obvious solution is to strengthen civil society in order to overcome this by a strong sense of community. On the more practical side this could be achieved by partnerships between business, academics, NGOs, etc. For example, more small factories could be located in small villages which would be non-harmful to village culture and society. The idea is to revive certain village industries and even think about new products.
Southeast Asian-Centred Economies or Economics?

The other aspect is that of ‘good governance’. Here an example would be small savings/credit unions with small inputs based not upon autonomous government spending but a personal commitment. Again the emphasis should be on developing institutions from the bottom up rather than those imposed by the central organisations.

References


Bowden, Elbert V. (1990), Economics in Perspective, Ohio, Southwestern Publishing.

Daly, Herman E. and John B. Cobb, Jr. (1989), For the Common Good: Redirecting the Economy toward Community, the Environment and Sustainable Future, Boston; Beacon Press.


Apichai Puntasen: The Asian Economic Crisis and the Crisis of Analysis


In Thai:


Phra Dhammadikoko (Payut Payuto) (1990), Economics for a Buddhist, Bangkok: Buddadharma Foundation.

—— (1995), How to Develop Human Being (Buddhism and Human Development), Bangkok: Buddadharma Foundation.


Phra Dhebhvethi (Payut Payuto) (1990), Method of Thinking According to Buddhist Dharma, Bangkok: Panya Press.

Phra Rajvaramuni (Payut Payuto) (1983), Buddhist Dharma Natural Law and Value for Life, Bangkok: Mental Health Press.

The recent financial crisis in Asia has raised a number of questions regarding the viability of the ‘miracle model’ for long-term stability and economic growth. These include challenges to the desirability of unfettered international capital movement; the proper sequencing of economic reforms; and, in particular, the proper role of the International Monetary Fund (IMF).

In exploring these challenges, however, a number of commentators have come very close to throwing the baby out with the bath water. As is often the case in times of widespread and unanticipated economic woes, analysts tend to concentrate on – and perhaps exaggerate – a small number of causal factors and are often keen to find a single factor which can be held responsible for the chain of events, or provide a solution. This represents a real danger in the case of the current financial crisis in Southeast Asia for two reasons. First, there appears to be a large, complex, and interrelated set of elements responsible for the developments since July 1997. Second, it has become clear that no single package of remedies will be appropriate for the various countries involved in the crisis.¹

Furthermore, while most analysts seem to agree on the major factors responsible for the buildup and outbreak of the
Anders Danielsson: Correcting Maladjustments

In the present crisis, the IMF has played a prominent role – more prominent, perhaps than what we are accustomed to. While the IMF usually perceives itself as a catalyst – the presence of this institution is intended to be a guarantee for relative stability and proper policies, thereby attracting private capital – this time the amount of resources released by the Fund widely exceeds what one reasonably might expect from a catalyst.

This paper only marginally addresses the causes and proper remedies of the crisis. Instead, I focus on what the IMF should do and what is actually does, using the financial crisis in Southeast Asia (and Korea, on occasions) as an example. There are three points I would like to bring out. First, I do not believe that these events have triggered a need for an ‘alternative economics,’ either for understanding the crisis or for designing policies to avoid such turmoil in the future.

Second, I question the extent to which the IMF has a mandate for demanding major policy change in the countries to which it provides aid. The IMF has taken the opportunity created by the Asian crisis to demand large policy changes, and while the appropriate-ness of the specific policy demands may be (and has been) debated, my point here is not to challenge
Southeast Asian-Centred Economies or Economics?

the demands themselves, but rather to challenge the legitimacy of the IMF making any such demands on these countries. As I spell out in more detail below, the mandate for the IMF, formulated in 1944, is much narrower in scope than its current actions suggest, focusing on providing advice and short-term finances to help countries overcome temporary financial and balance-of-payment difficulties. In short, the proper role of the IMF, according to its original mandate, is simply to help countries gain access to international capital markets.

Third, I argue here that the IMF should abandon its habit of employing a generic approach when it comes to assistance in crisis economies. The failure of the Fund to adjust properly its policy advice to country-specific circumstances may not only mean inappropriate policies, it may also mean that the crisis is unnecessarily prolonged and the social and economic costs of adjustment in the crisis economies are unnecessarily high.

The structure of the paper is as follows. Section 2 outlines the basic structure of the generic model employed by the Fund and contrasts the objectives of the Fund with that of its sister organisation–the World Bank. Section 3 identifies several phases in IMF’s history and tries to show that its role in South-east Asia today has very little to do with the original mandate. Section 4 attempts to identify some weaknesses in current IMF practice and shows how its policy advice may have rendered the crisis longer and deeper. Section 5 concludes.

The Bretton Woods Model
The World Bank and the International Monetary Fund were created at the Bretton Woods conference in 1944 with distinct, but complementary purposes in mind. While the Bank was to be a development bank proper, providing long-term finance (primarily to the war-torn economies of Europe, but later to low-income countries in the rest of the world), the Fund’s primary purpose was to provide stability to countries in the system of fixed exchange rates linking the major industrial economies through the beginning of the 1970s known as the Bretton Woods exchange rate regime.

88
Anders Danielsson: Correcting Maladjustments

The basic idea is simple. A system of fixed exchange rates is credible only if countries are able to keep the value of their own currency in line with that to which it is pegged. If real economic changes make adjustment necessary, it should come via fiscal and monetary policies in the affected economy rather than by devaluing the currency. However, while some real economic events may be permanent and necessitate adjustment (such as a fall in the export demand for a major export commodity), others are temporary and should be addressed with the assistance of temporary finance (such as price swings or extreme wage increases). This is the mandate of the IMF: to provide temporary finance to help overcome temporary problems.

At a higher (or more ideological) level, the IMF also has the objective of promoting free and unrestricted international trade and capital movements. For this, it tries to encourage currency convertibility. The basic idea is a belief in the market economy: unfettered markets not only lend stability to the economic system but also prosperity in the form of higher growth.

This stands in contrast to the intended activities and objectives of the World Bank. Although the Bank at times also has been characterised by a belief that unrestricted markets provide the best road to prosperity, the role of the Bank necessarily involves governments, and takes a longer term view of the economy. Essentially the role of the bank is that of a mediator between private capital in search of investment opportunities and governments in search of long-term investment funds.

The relationship between the two Bretton Woods institutions (BWIs) is this. Investment projects, particularly those extending ten years or more, have a larger chance of success (and of attracting private co-financing) if they are implemented in an environment characterised by stability. Thus for instance, the profitability of a power-plant, with a life span of perhaps thirty years, which converts oil to energy will be very sensitive to swings in the exchange rate. Consequently, it will be easier to
persuade private investors to put their money into such a project if they can be convinced that the probability of devaluation (that is, increases in the price of imported oil) is very small. A similar argument can be made with respect to the impact of inflation. Consequently – and this is the complementarity between the Bank and the Fund – if the Fund can guarantee finance to governments to help them overcome temporary, unexpected shocks (and the government can pledge to follow a policy package to avoid permanent shocks), the World Bank finance (with or without private co-financiers) will have a larger impact on the production capacity, and thus on the rate of income growth, of the economy.

One problem in this set-up is to make sure that the recipient government pursues policies to protect against home-cooked shocks and that it is willing to pursue economic adjustment via changes in fiscal and monetary policy in the presence of exogenous, permanent shocks. The mechanism for this is conditionality: both the IMF and the Bank stipulate a set of policies to be pursued and a set of reforms to be undertaken as conditions for disbursal of funds. If the release of grants and loans is made conditional on such policy packages, and if the threat implicit in the conditions is credible (bad performance equals no funds), the implementation of a BWI-approved programme may increase private sector confidence and thus private investment.

The two BWIs, then, complement each other. They also share a common view of the world. To understand the Fund’s actions in Southeast Asia one must understand the foundations of these actions. Although the Fund has changed markedly during its fifty or so years of existence – and it would have been strange indeed had it not changed, given the profound changes in the world economy during this time – it retains (and shares with the Bank) a number of basic assumptions and objectives. Sometimes these assumptions are framed in what John Williamson (1990) dubbed ‘the Washington consensus’; here, there is no need to go into detail but a non-exhaustive list of common assumptions might look like the following:
1. Markets work.
2. Government should limit their activities to things the private sector cannot do.
3. Too much regulation fosters corruption and rent-seeking.
4. Inflation is a monetary phenomenon.
5. Growth is important, requiring investments and macroeconomic stability.

The first and third assumption lead to the second. The fourth assumption suggests that monetary policies may be important for achieving macroeconomic stability – something which according to the fifth assumption is necessary for a high rate of investment and thus growth of prosperity.

Most countries that seek assistance from the BWIs are in deep trouble. While the contact is often triggered by an acute shortage of foreign exchange, they also are often heavily regulated, rather closed economies that have a suppressed private sector and a severe macroeconomic imbalance (why countries postpone contacts with the BWIs until their economies are in very bad shape is an issue I return to later on). The standard recipe offered by the BWIs, and by the IMF in particular, usually centres around the following three components.

**Macroeconomic stabilisation** via currency devaluation to attain a realistic exchange rate, strict monetary policy to bring down inflation (which usually is high and gets additional fuel from the devaluation), and strict fiscal policy to bring the fiscal gap under control. The rationale behind this is as follows:

1. improved external position reduces the need for external financing;
2. reduction of inflation reduces uncertainty and increases private investment (local and foreign);
3. closing fiscal gaps increases savings (and investments) and lowers inflation by reducing the need to monetise the deficit.

**Deregulation and liberalisation** by scrapping public monopolies such as marketing boards; by changing legislation in
order to increase competition and improve efficiency; and by making it easier for private actors to participate in economic life. These measures are taken to:
1. increase efficiency in resource utilisation;
2. foster greater competition;
3. encourage private investment.

Privatisation in order to slim the government's project portfolio and to focus the government's scarce resources on activities that the private sector cannot or will not do. This is supposed to have at least three beneficial effects:
1. improve government finances;
2. foster competition;
3. increase efficiency.

In theory the division of labour between the IMF and the World Bank is that the former deals with the demand side and the short term while the latter focuses on the supply side and the medium term. In reality the distinction between the two has become increasingly blurred. This has partly to do with the fact that both the Bank and the Fund have become increasingly involved in low-income countries, particularly in Africa, where the Fund's original mandate – to provide temporary finance to countries which temporarily lack access to international capital markets – does not apply. Why the Fund's activities have been redirected towards low-income countries need not concern us here (but see Bird, 1996 and Killick, 1996 for plausible tales); the important point is the growing realisation that one cannot stabilise first and then adjust; short-term and medium-term problems should be addressed simultaneously. In addition, the policy instruments of concern to short- and medium-term problems coincide. The exchange rate, for instance, is used both for improving the external position (basically a short term concern) and for shifting resources to the export sector (a medium term strategy that is part and parcel of the Bank's adjustment agenda).
Anders Danielsson: Correcting Maladjustments

Even though the Fund has become more deeply involved in longer-term issues which are traditionally the domain of the World Bank, this does not change the Fund’s mandate. The Fund’s concern with adjustment (as opposed to stabilisation) should be seen against the background of its increasing involvement in low-income countries that lack access to private capital markets – countries where large-scale and long-term adjustment is necessary before private capital to finance temporary problems will be forthcoming. But the Fund is also involved in countries that do not have these problems – notably Korea and the second-generation tigers in Southeast Asia. Here, the need for adjustment may be as pressing as in Africa but – and this is the important point – African-style adjustment is not necessary for these countries to regain access to private international capital markets. Consequently, even if one accepts that the Fund should extend its activities in Africa to cover longer-term issues that do not necessarily have a bearing on private capital availability, it does not follow that the Fund should have the same agenda outside low-income countries. In contrast to the World Bank, the IMF is not a development bank and should not act as one. The mandate of the Bank is to provide long-term finance to pave the way for economic growth and increasing prosperity; the mandate of the Fund is to provide advice and short-term finance to bridge temporary gaps. Even though the two institutions share a common ideology and strive towards common objectives, it does not follow that they should duplicate each other’s work or even that they should enter each other’s turf.3 Indeed, in the countries in Southeast Asia most affected by the crisis (except, perhaps, for the Philippines), the World Bank’s activities are minor. Hence, the argument behind the IMF’s activities in low-income countries in Africa does not apply to the present crisis in Asia.

The Changing Role of the IMF
The world has changed since 1944 and the IMF has changed too, although not necessarily for the better. As noted above,
the Fund was designed to maintain international monetary stability, particularly through its role as a supervisor of the international exchange rate arrangement known as the Bretton Woods system. To provide credibility for the system it was important that countries did not make economic adjustments by altering the value of their currency. A need for permanent adjustment should be addressed by appropriate fiscal and monetary action; temporary shocks were bridged by finance from the Fund.

Originally the need for an International Monetary Fund emanated from the fact that international capital markets were small or non-existent at the end of the war. However, two events in the early 1970s jeopardised the rationale for the Fund’s existence.

First, the Bretton Woods exchange rate arrangement broke down. Essentially, the system had been based on a set of bilateral exchange rates between the U.S. dollar and member currencies; the stability of the system was guaranteed by the dollar being convertible at a fixed price into gold. Lack of confidence in the system would thus be manifested in a substitution of gold for dollars. In other words, the burden of stability was carried by the U.S. government which had to make sure that the amount of dollars in circulation was maintained at a steady ratio to gold reserves. The system came under pressure for a variety of reasons, the most important being U.S. involvement in the Korea and Vietnam wars. To a large extent, the resulting U.S. budget deficit was financed through the printing press with little regard to the effects on the dollar-gold ratio. As the number of dollars in circulation increased, confidence that the Federal Reserve would be able to maintain the fixed price of gold fell and a run on the gold reserves was feared. To stop this, President Nixon declared in 1971 that the dollar would no longer be convertible into gold, effectively scrapping the Bretton Woods system. Two years later the system was formally abandoned. The dollar started to float and most European currencies were linked in the snake – a kind of Bretton Woods system using the Deutsche Mark.
instead of the dollar and with no link to gold. Consequently, the need for an international financial institution designed to maintain exchange rate stability was reduced in the early 1970s.

Second, the early 1970s saw tremendous growth in private international capital markets. Partly as a consequence of the 1973/74 oil price increase when bank liquidity flooded and American banks, largely in response to rigid bank legislation in the U.S., established off-shore branches, the emergence of immense reserves of ‘petro-dollars’ and ‘euro-dollars’ created demand for new forms of assets. Increased liquidity in the rapidly growing international bank system also improved the situation for borrowers. Consequently, since European countries were now able to borrow from private international banks, the need for an IMF diminished even further and a new rationale for the Fund had to be found.

That rationale presented itself in the form of the Latin American debt crisis. As this came to a successful end (at least from the bankers’ point of view) in the mid 1980s, the Fund stayed in Latin America, mainly by providing technical guidance on appropriate macroeconomic policy. The amount of financing provided by the Fund was substantially larger than what it had contributed in the previous decades to the members of the Bretton Woods exchange rate system, but still small compared to other sources of finance for recipient countries. It was at this point that conditionality was introduced, focusing on short-term macroeconomic indicators such as the inflation rate, the level of international reserves and the fiscal deficit, and consequently macroeconomic monitoring became an integral part of Fund activities (it is also here that the Fund, for the first time, acted as a catalyst: the macroeconomic expertise in the IMF, coupled with credible policy conditions, made private investors’ activities conditional on IMF approval).

The next substantial change in the IMF’s agenda presented itself at the end of the 1980s with the collapse of the Soviet Union. Massive finances were needed to prevent an immediate collapse of the economies in the former Soviet Union, and in
Southeast Asian-Centred Economies or Economics?

East Europe. In addition the expertise of the IMF was employed to advise the new governments on privatisation. The emphasis on fiscal and monetary prudence familiar during the Latin American debt crisis assumed a less prominent role as the Fund concentrated its advice on ‘structural’, rather than macro-economic fields: privatisation, banking reform, taxation. In addition, for the first time in history the Fund emerged as the major financier. Of course, since there is a relation between the amount of finance provided and the type of policy and structural changes the financier can credibly demand, the IMF became, particularly in Russia, the principal, if not the sole, architect of the new market-based economic system that was eventually to emerge.

Against the background of the IMF’s activities in Russia, it is interesting to note the relative decline of macroeconomic stability as a priority for the IMF. To an increasing extent, the Fund demands structural changes and insists not only on policies which will grant access to international capital markets, but on changes in the economic, political and judicial system as well so that a fully-fledged market economy can develop. As I will spell out in more detail below, my argument in this paper is that while a move towards a market-based economy may be a rational move towards increasing prosperity in many economies, it is doubtful to what extent these changes should be triggered by the IMF rather than the autonomous government in the country.

However, the experiences in Russia and East Europe were not directly translatable into the situation in Southeast Asia. First of all, the hardest hit economies in Southeast Asia had economic systems which were already based on market principles. Even if the descriptions of the tigers by their most ardent proponents were somewhat misleading – the government controls, directly or indirectly, large chunks of the economy in Indonesia, Thailand and Korea – markets do drive these economies, so the lessons learned from the transition in Russia were not directly applicable. Second, the IMF approach in Russia and East Europe cannot be described as a success story...
– not yet, anyhow. Much has failed, or taken longer, or been more costly than originally presumed. While there are plausible explanations for this, the simple possibility that the Fund relies on an inadequate model cannot be excluded.

Instead the IMF chose a combination strategy in Southeast Asia. The large-scale financing with associated heavy and structural conditionality from Russia was combined with the emphasis on short-term macro variables, monetary prudence and fiscal restraint that the Fund had employed so successfully in Latin America. Following Feldstein (1998), the most important eras in the Fund’s history may be summarised as follows:5


4. **1997–98.** Financial crisis in Southeast Asia and Korea. Similar strategy as in Phase 3, i.e., heavy conditionality coupled with massive credit in combination with the Phase 2 recipe, i.e. tight fiscal policy combined with monetary restraint.

It is quite clear that the IMF has come a long way from its original mandate, i.e., the maintenance of a fixed exchange rate system through the provision of short-term finance to bridge temporary problems. The Fund has emerged as a major player in the international arena in advice as well as in the amount of finance provided; further, its objective appears
Southeast Asian-Centred Economies or Economics?

no longer to be macroeconomic or financial stability *per se*,
but rather the pursuit of market-based economic systems in
which the government plays a predefined and carefully circum-
scribed role.

The next section of the paper asks to what extent this is
the proper role for the Fund and whether its activities in
Southeast Asia may actually be moving the IMF further away
from its principal objective: to correct disequilibria without
jeopardising prospects of economic growth.

The IMF and the Crisis in Southeast Asia

To understand the nature of the crisis one should start by
considering how the region’s economies have developed in
the past decade or so. Two features are clear. First, the rate
of growth of income has been by global and historical standards
extremely high. Second, a significant, and increasing, share
of the investments responsible for this high growth has been
financed by inflows of capital from abroad. As I have argued
previously, the primary role of the IMF is to help countries gain
access to international capital markets. Consequently, insistence
on reforms or policy changes are in line with the IMF mandate
only insofar as they help accomplish that objective.

To understand why investor sentiment changed in Southeast
Asia and consequently to understand what policies are necessary
to restore confidence it is useful to start with the invest-
savings identity:

(1) Domestic investments = private savings + fiscal surplus +
current account deficit

This is not an economic theory; it is an accounting identity
which always holds. It is useful in two different ways. First, it says
that investments have to be financed by savings; for every dollar
invested, there is a dollar saved, either by individuals (i.e., private
savings), by the government (in the form of a budget surplus)
or by economic actors abroad (manifested in the current
account deficit). The last item may be difficult to understand
but it follows readily from another accounting identity:

(2) Current account deficit = Capital account surplus

98
A deficit in the current account is precisely balanced by a surplus in the capital account (and, of course, vice versa). Since foreign investments and loans are recorded in the capital account, (2) means that if there is a current account deficit, the net inflow of foreign investments and loans is positive. In this sense, then, the item ‘current account deficit’ in (1) may be denoted ‘foreign savings’ since it necessarily implies a positive net inflow of the capital account and, thus, that in some country abroad total domestic savings exceeds total domestic investments. This is the first point on which the investment-savings identity is useful: it can be employed to examine the sources of investment finance.

Thus for instance in the Mexican ‘tequila crisis’ of 1995–96, it was found that the large current account deficit (and accompanying capital account surplus) was used primarily to sustain a high level of private consumption. Insofar as the inflow of capital was used to buy equity in Mexican firms rather than building new factories, one could say that the high level of private consumption in Mexico was financed by selling the family jewellery. Consequently the investment-savings identity may be used to assess the sustainability of macroeconomic policies.

The second important way in which (1) may be used is the fact that a change in one of the variables necessarily is accompanied by changes in at least one of the others. Thus for instance, assume that the demand for exports suddenly falls and the current account deficit widens. Now, it follows from the accounting identity (1) that one or more of the following must happen: (i) a fall in private savings; (ii) a fall in the budget surplus (or an increase in the budget deficit); or (iii) an increase in domestic investments. Much of our understanding of macroeconomic crises emanates from the analysis of how initial shocks (in this case, a fall in export demand) are accommodated within the framework of the investment-savings identity. Table 5.1 sets out this identity for ASEAN-4 and Korea for some years in the 1990s including the first year of the crisis (although in most countries the impact of the
Southeast Asian-Centred Economies or Economics?

The crisis is not reflected in the figures. With the exception of the Philippines, investment levels are remarkably high: over 25 per cent of GDP in all countries and up to 40 per cent in Malaysia (and even the Philippine investment ratio is very high by international, or historical, standards). This should be compared to an investment ratio of less than 4 per cent in the advanced countries.6

Private savings are also very high by international standards: in advanced economies private savings in 1996 were around 7 per cent of GDP (IMF, 1998). Since the governments’ budgets are also close to balanced and indeed in surplus in Malaysia and Thailand, it seems fair to conclude that the substantial current account deficit observed for most of the countries – with the possible exception of Indonesia – has been used to maintain a high investment ratio, which in turn is the major factor behind the high rate of growth of income (between 7 and 10 per cent per annum for the countries except the Philippines which has had a rate of some 2–4 per cent in recent years).

The story, then, behind the crisis is this. Most of the countries have had their currencies pegged to the U.S. dollar. The large current account deficit was not perceived as incredible (and thus the possibility of a devaluation of the currency was not appreciated) mainly because most of the associated capital inflow had been used to finance investments. To contain inflation, authorities followed a strict monetary policy with high real interest rates. Consequently, the combination of a credible fixed exchange rate and high interest rates made the region look like a golden opportunity to foreign, particularly American, investors: the return on short-term investments in Thailand was close to 25 per cent (compare that to a return of some 3–5 per cent per annum on three-month deposits in the U.S. during the first half of the 1990s (IMF, 1998, Table A18)). The 1996 depreciation of the Japanese yen vis-à-vis the dollar changed all this.

One major problem accounting for the unsustainability of the growth strategy in the region is the fact that while the
### Table 5.1: The Investment-Savings Identity (as per cent of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>Investment</td>
<td>27.6</td>
<td>28.4</td>
<td>28.1</td>
</tr>
<tr>
<td></td>
<td>Private savings</td>
<td>25.9</td>
<td>24.3</td>
<td>23.4</td>
</tr>
<tr>
<td></td>
<td>Fiscal surplus</td>
<td>0.0</td>
<td>0.8</td>
<td>1.4</td>
</tr>
<tr>
<td></td>
<td>Current account deficit</td>
<td>1.7</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Investment</td>
<td>40.1</td>
<td>43</td>
<td>42.2</td>
</tr>
<tr>
<td></td>
<td>Private savings</td>
<td>29.8</td>
<td>29.2</td>
<td>33.1</td>
</tr>
<tr>
<td></td>
<td>Fiscal surplus</td>
<td>2.5</td>
<td>3.8</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>Current account deficit</td>
<td>7.8</td>
<td>10</td>
<td>4.9</td>
</tr>
<tr>
<td>Thailand</td>
<td>Investment</td>
<td>39.9</td>
<td>41.8</td>
<td>40.8</td>
</tr>
<tr>
<td></td>
<td>Private savings</td>
<td>32.3</td>
<td>31.2</td>
<td>31.3</td>
</tr>
<tr>
<td></td>
<td>Fiscal surplus</td>
<td>2.0</td>
<td>2.6</td>
<td>1.6</td>
</tr>
<tr>
<td></td>
<td>Current account deficit</td>
<td>5.6</td>
<td>8.0</td>
<td>7.9</td>
</tr>
<tr>
<td>Korea</td>
<td>Investment</td>
<td>35.7</td>
<td>36.6</td>
<td>36.8</td>
</tr>
<tr>
<td></td>
<td>Private savings</td>
<td>33.5</td>
<td>34.6</td>
<td>31.9</td>
</tr>
<tr>
<td></td>
<td>Fiscal surplus</td>
<td>1.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td></td>
<td>Current account deficit</td>
<td>1.2</td>
<td>2.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Philippines</td>
<td>Investment</td>
<td>23.6</td>
<td>22.2</td>
<td>23.2</td>
</tr>
<tr>
<td></td>
<td>Private savings</td>
<td>20.6</td>
<td>19.2</td>
<td>18.9</td>
</tr>
<tr>
<td></td>
<td>Fiscal surplus</td>
<td>-1.6</td>
<td>-1.4</td>
<td>-0.4</td>
</tr>
<tr>
<td></td>
<td>Current account deficit</td>
<td>4.6</td>
<td>4.4</td>
<td>4.7</td>
</tr>
</tbody>
</table>

**Source:** IMF (1997); IFS (1998)

**Note:** 1997 values are projections from November 1997.
Southeast Asian-Centred Economies or Economics?

currencies were pegged to the U.S. dollar, most trade was with Japan. Consequently, the yen’s depreciation vis-à-vis the dollar deteriorated the competitiveness of Southeast Asian exports in their major market. In a period spanning mid-1996 to April 1997, the yen dropped by approximately 40 per cent (from index 180 to index 115) against the dollar. Consequently, the yen-price of exports from countries with their currency pegged to the dollar increased substantially. While the crisis became visible first in Thailand, the story is similar in the other countries, including Korea. The pressure on the baht became heavier than the authorities could handle. Despite heavy intervention in the currency markets in May and the introduction of foreign exchange and capital controls on May 15, Thai authorities were unable to turn the tide. The baht was allowed to float on July 2 and immediately dropped ten per cent against the dollar. Contagion rapidly spread to neighbouring economies, particularly because the baht’s depreciation continued throughout July, raising doubt as to the viability of the dominant growth strategy in the region (i.e., extreme investment levels financed to a large extent by substantial current account deficits).

One question at this juncture is why the baht could drop so rapidly, and why other currencies followed suit. The baht’s value against the dollar had, after all, been maintained by investment in Thai assets. The answer differs somewhat from country to country, but a common denominator in all countries emerges from the composition of net inflows of capital. Table 5.2 sets out the relevant data.

There are two important lessons from this table. First, private capital inflows are large. While inflows are much larger in other regions in the world, notably sub-Saharan Africa, these are mainly official flows, i.e., foreign aid, that have very different impacts and problems than inflows in Southeast Asia. Compared to advanced economies, however, the inflow of capital is substantial. Thus for instance, net borrowing by the U.S. in the 1990s – i.e. the difference between domestic investments and domestic savings – hovers around 1 per cent of GDP. The
## Table 5.2: Composition of Capital Flows (as per cent of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net private flows</td>
<td>3.9</td>
<td>6.2</td>
<td>6.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Net direct investment</td>
<td>1.4</td>
<td>2.3</td>
<td>2.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Long-term portfolio</td>
<td>0.6</td>
<td>0.8</td>
<td>0.8</td>
<td>-0.5</td>
</tr>
<tr>
<td>Short-term capital</td>
<td>1.9</td>
<td>3.1</td>
<td>2.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net private flows</td>
<td>1.5</td>
<td>8.8</td>
<td>9.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Net direct investment</td>
<td>5.7</td>
<td>4.8</td>
<td>5.1</td>
<td>5.3</td>
</tr>
<tr>
<td>Long-term portfolio</td>
<td>0.0</td>
<td>-0.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Short-term capital</td>
<td>-4.2</td>
<td>4.1</td>
<td>4.5</td>
<td>-0.6</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net private flows</td>
<td>8.6</td>
<td>12.7</td>
<td>9.3</td>
<td>-10.9</td>
</tr>
<tr>
<td>Net direct investment</td>
<td>0.7</td>
<td>0.7</td>
<td>0.9</td>
<td>1.3</td>
</tr>
<tr>
<td>Long-term portfolio</td>
<td>0.9</td>
<td>2.0</td>
<td>0.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Short-term capital</td>
<td>7.0</td>
<td>10.0</td>
<td>7.7</td>
<td>-12.6</td>
</tr>
<tr>
<td>Korea</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net private flows</td>
<td>3.1</td>
<td>3.9</td>
<td>4.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Net direct investment</td>
<td>-0.3</td>
<td>-0.4</td>
<td>-0.4</td>
<td>-0.2</td>
</tr>
<tr>
<td>Long-term portfolio</td>
<td>1.7</td>
<td>1.8</td>
<td>2.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>Short-term capital</td>
<td>1.7</td>
<td>2.5</td>
<td>3.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Philippines</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net private flows</td>
<td>5.0</td>
<td>4.6</td>
<td>9.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Net direct investment</td>
<td>2.0</td>
<td>1.8</td>
<td>1.6</td>
<td>1.4</td>
</tr>
<tr>
<td>Long-term portfolio</td>
<td>0.5</td>
<td>0.4</td>
<td>-0.3</td>
<td>-5.4</td>
</tr>
<tr>
<td>Short-term capital</td>
<td>2.5</td>
<td>2.4</td>
<td>8.5</td>
<td>4.5</td>
</tr>
</tbody>
</table>

**Source:** IMF (1997)

**Note:** 1997 data are projections from November 1997.
figures are similar for European economies, and Japan lends no more than approximately two per cent of its GDP. In the ASEAN-4 plus Korea, net inflow of private capital prior to the crisis is between 5 and 10 per cent of recipient GDP with a massive 12.7 per cent for Thailand in 1995.

There are net private flows, meaning (i) that outflows of capital from the region have been deducted – the actual inflow is probably even larger – and (ii) all these resources flowing into the countries are in search of investment opportunities. The question of availability of investment opportunities apart, it should be noted that several studies, discussed in van de Walle and Johnston (1996), estimate that the maximum amount of resource inflow that a country can absorb is in the neighbourhood of ten per cent of GDP – and then only if such flows continue for a short period of time and are coordinated (as shown by the cases of Korea and Taiwan in the 1950s).

The causal link between investment opportunities and economic growth runs both ways. High investment leads to high growth and high growth creates new profitable investment opportunities. The investment-growth cycle, however, can easily turn into a vicious one. If for some reason growth slows, there will be fewer investment opportunities so less capital will be attracted and thus growth will slow even further. Consequently, even in the absence of events such as those that triggered the Southeast Asian crisis, a growth strategy based on massive inflow of foreign capital is like balancing on a knife-edge.

The second lesson from Table 5.2 is the relation between short-term inflows and direct investments. The latter is investments in new plants, or acquisition of equities in existing firms; the former is acquisition of short-term assets, such as three-month CDs, or six-months treasury bills. From the point of view of the recipient, a too high ratio of short-term inflows to direct investment exposes the economy to the daily whims of financial markets: short-term capital flows, by their very nature, may change direction at very short notice, and thus the equilibrium value of the currency may fluctuate
without any relation to real economic events in the affected economy.

Short-term capital inflows exceed foreign direct investments by about 50 per cent in Indonesia and the Philippines, and by a factor of 3 and 10 in Korea and Thailand, respectively. Consequently a substantial share of the net capital inflow needed to sustain the current account deficit was footloose and able to shift direction at very short notice.

Herein lies the unsustainability of the growth strategy in Southeast Asia: the reliance on short-term capital which in turn was attracted by artificially high rates of return, and accompanied by a rapidly growing speculative bubble in real estate. With the benefits of hindsight, it was just a matter of when, not if, the crisis would strike.

As already indicated, the response of the IMF was to demand fiscal and monetary restraint, coupled with structural measures, in return for massive finance to avoid an immediate balance of payment crisis. These measures, and in particular, fiscal and monetary prudence, are standard IMF prescriptions. Yet, it is difficult to see their rationale in the Southeast Asian context: all the major economies affected by the crisis had fiscal surpluses and most had been able to contain inflation.

The result of the strict policies was a rapid fall in domestic demand and a dramatic slow-down in growth. While the decline of demand was somewhat counteracted by the massive drops in the currencies’ value (triggered by the move to a floating exchange rate regime), the decline in growth was, if anything, spurred by large-scale bankruptcies which occurred partly in direct response to demands from the Fund, and partly as an unintended consequence of Fund-demanded policies.

The Fund thus responded to the Southeast Asian crisis both by resorting to the well-tested recipe from the Latin American debt crisis – with demands for fiscal and monetary prudence – and by demanding large-scale structural measures. Irrespective of the desirability of these measures in the Southeast Asian context, we should ask: ‘to what extent were these policy changes necessary to facilitate renewed access to

Anders Danielsson: Correcting Maladjustments
international capital markets? According to Feldstein (1998), the Fund should be asked three questions before making policy-related demands of a country:

1. Is this reform necessary to restore access to international capital markets?
2. Is this a technical matter which does not interfere with a sovereign government’s jurisdiction?
3. If policies to be changed are also practised in other parts of the world, does the Fund think it appropriate to force similar changes in those countries if they came under a Fund programme?

If the Fund cannot answer ‘yes’ to each and every one of these questions for each and every proposed policy change, then that policy change is not within the mandate of the IMF to demand.

One example of a proposed policy change for which the Fund cannot answer in the affirmative for the three questions concerns the market for plywood in Indonesia. Here, the Fund demanded, as part of a policy-cum-finance package amounting to approximately 25 per cent of Indonesia’s GDP, a dismantling of the production monopoly in plywood and a switch to market-determined prices. Given the rampant nepotism in the Indonesian government, such a policy change may have economic as well as moral grounds, and donors may even see it as a condition for continued support. However, it is questionable to what extent it would be a necessary step for Indonesia’s regaining access to international capital markets and thereby it would not be a necessary change for solving the acute balance of payment crisis facing Indonesia. In addition, since the monopoly has been created by the government, and since it clearly was in the interest of the government to maintain that monopoly, it could be argued that the IMF condition would be an interference with the jurisdiction of an independent government.

It is possible, of course, that the member states want the IMF to be a guard dog, an instrument for securing economic
Anders Danielsson: Correcting Maladjustments

efficiency in market economies. But if that is the case, such a mandate should be clearly spelled out by its members and those members not wishing to support such a Fund position should be given the opportunity of leaving.

A more flagrant mistake by the IMF which is likely to have deepened the crisis and which emanates from the Fund’s inability to discard its generic economic model concerns Korea (though other countries have suffered a similar fate). Here, the Fund applied its usual medicine of monetary and fiscal prudence (despite a budget surplus and reasonable and controlled inflation). Real interest rates escalated with the result that a large number of Korean firms collapsed. A large amount of these firms were basically healthy and there were no real economic reasons why they should cease to exist (or cease to be Korean). Most firms certainly were healthy: their closure and being put up for sale led Paul Krugman to state that buying stock in these firms now is ‘like buying dollar bills for 60 cents apiece’.

The reason for the collapse of a large part of the Korean manufacturing sector was basically that Korean firms usually display a very high debt-to-sales ratio, so the escalating real interest rates increased debt servicing over and above what many firms were able to pay. While one can question the rationale of borrowing for expansion (at least to the extent that Korean firms have done), one could reasonably demand that the Fund adjust its standard medicine so as to avoid an unnecessary collapse of production in the crisis economy.

A final point of importance is this. The IMF is known to demand harsh conditions in return for finance and its threats are usually quite credible. This means that the Fund acts as a lender of last resort, not only in the usual sense that the Fund provides funds when all other sources (i.e., private international capital markets) have been exhausted, but also in the sense that countries try to avoid the Fund as long as possible. By the time they come to the IMF, their problems are usually acute and very costly to resolve. Feldstein (1998) uses the analogy with old-time dentists when most treatments
Southeast Asian-Centred Economies or Economics?

were quite painful. As a consequence, patients did not come until the pain was acute and teeth had to be removed. If they had come earlier, less dramatic cures might have sufficed. Consequently, the costs for curing crises may be eased if the Fund is allowed to come in earlier – maybe not with finance, but at least with technical advice – but this is not likely unless the set of conditions typically laid down by the Fund is made less harsh.

Concluding Remarks

The Fund has come a long way since its creation at Bretton Woods in 1944. It has moved from being an instrument for guaranteeing monetary stability in and between industrialised nations to become one of the most powerful institutions in international finance. The objectives of the Fund have changed too – not on paper, perhaps, but in reality – and what I earlier called the IMF’s ideological motive seems to dominate the more pragmatic ones set out in the Articles of Agreement.

While it would be possible to argue that the majority of IMF members find it in their interest that the IMF consciously try to change policies in member countries in a direction characterised by markets, efficiency and competition, there are still good reasons to consider changes in the Fund’s activities. As has been evident in sub-Saharan Africa for a long time, and as is becoming evident in Southeast Asia as well, the generic model simply is not appropriate for all countries at all times. Rather, the generic model may at times do more harm than good and it may actually counteract the Fund’s own objectives. This is a bit ironic, since the very first Article of Agreement, ratified at the 1944 Bretton Woods meeting, unequivocally states the fundamental purpose of the IMF as:

To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
Anders Danielsson: Correcting Maladjustments

The evidence from Latin America in the 1980s, from sub-Saharan Africa from the early 1980s and onwards, from Central Asia and Russia in the first half of the 1990s, and from Southeast Asia and Korea following the crisis of 1997 suggests that the burden of proof regarding the relevance and applicability of the IMF model no longer rests with the critics. Now is the time for the Fund itself to demonstrate how and why its generic model is the best way for regaining stability in stressed economies without resorting to measures destructive of prosperity.

Discussion

Comment: David Korten argues that the World Bank only tries to create debt in order to gain international hegemony. More specifically, the mechanism is via encouraging debt-financing of infrastructure projects, social services, etc.

Answer: Whether this is a specific or conscious policy of the international aid organisations would be difficult to establish. What is clear is that there are lots of examples of debts acquired by member nations resulting directly from projects suggested and monitored by the World Bank itself which failed completely. Again if this is due to incompetence or conspiracy is anyone’s guess.

Another factor that one must take into consideration is the organisational structure. In the first place there exists an enormous bureaucracy which by itself makes coordination difficult to say the least. In addition, the large number of departments, all with different routines and priorities, means that any sort of common policy is next to impossible. Added to this is the lack of instruments for feedback from the field, and on has an almost type example of Parkinson’s Law in action.

Comment: The IMF and other international bodies do not work in a vacuum, but are part of a financial (read capitalist) world and as such are interlocked, if not integrated, with mainly American capital.
Response: This certainly seems supported by the imposition of cross-conditionality by the IMF and World Bank. That is, funds are not released by them without a contract, ultimate interpretation of which rests with the donors, not receivers. It is hard to overestimate the enormous powers this gives the IMF, such that even bilateral funds are based on such cross-conditionally. [Editor’s note: This provision has allowed the IMF to make detailed and specific demands on Indonesia which are seen as above and beyond that falling within their mandate.]

Comment: It might be an indication of just how frustrated Southeast Asians were when they called in the IMF full knowing the drawbacks!

Response: A possible corrective for the powers enjoyed by the World Bank and IMF would be to use aid not as a bribe to carry out certain policies (i.e. what World Bank or IMF wants) but as a reward, i.e. receivers must come up with their own solutions, for which the world organisations would pay a premium. Here also soft sectors and NGOs could play an important role as local initiated project groups standing closer to those in actual need of aid than the enormously complicated, Washington-based (and financed) organisations.

Notes
2 The World Bank is not allowed to provide non-project aid to countries that do not have an agreement with the Fund. Consequently, the Fund always comes first and, in a way, sets the agenda.
3 Several writers of a radical persuasion argue that the objective of the BWIs is global dominance. The argument is usually framed in terms of the US’s dominant voting position in both institutions; the BWIs thus are seen as instruments for the U.S.’s geopolitical objectives. For the purposes of this essay such a conspiratorial approach is unnecessary: what I am saying is simply that both institutions have a gut feeling that the market economy is the
Anders Danielsson: Correcting Maladjustments

most efficient system for attaining growing prosperity – and increased prosperity is their objective.

4 This, incidentally, is one of the reasons for the Latin American debt crisis, in which the IMF played no minor part.

5 In the 1980s the IMF has also significantly expanded its operations in Africa. This is ignored here, mainly because in sub-Saharan Africa the IMF interacts with, and performs very much like, a development bank or an aid donor. IMF activities in Africa, particularly through the ESAF window, have recently been evaluated by Botchwey et al. (1998).

6 Using the IMF classification of countries. ‘Advanced economies’ comprise the G-7 countries, the rest of the EU members, and Hong Kong SAR, Korea, Singapore, Taiwan, Australia, Iceland, Israel, New Zealand, Norway and Switzerland.

7 At least outside Africa. In Zambia, when donor finance was frozen in the early 1990s – mainly on the advice of IMF and the World Bank – the then Minister of Finance was asked whether it was time for Zambia to adjust its policies to meet the demands from the IMF. After all, a significant share of Zambia’s foreign exchange came from donor funds, and it is questionable whether the country could avoid a deep and acute political and economic crisis without that money. ‘No problem’, the Minister answered, ‘they always come back’. Of course, he was correct. Similar tales could be told with respect to the relations between the Fund and Kenya.

References


Southeast Asian-Centred Economies or Economics?

This study aims at carrying out a preliminary investigation into how regional cooperation in Southeast Asia is affected by the ongoing economic crisis in the region, with particular emphasis on economic cooperation. Attention is devoted both to the ASEAN-6 (Association of Southeast Asian Nations; the original six are Indonesia, Thailand, Malaysia, Singapore, the Phillipines, and Brunei Darussalam) and to the new members of the Association (Vietnam, Laos and Myanmar) with the aim of identifying variations in the way the economic crisis affects various ASEAN members.

In the first section we outline the context in which the study was conducted. In the second section we present an overview of economic cooperation in ASEAN and explain its linkage to regional security issues. We analyse the relevance of economic factors in accounting for the expansion of ASEAN in the 1990s, both from ASEAN’s point of view and also from that of the newly admitted members. In the third section, we explore the effects of the Asian crisis on ASEAN countries, focusing particularly on why the new members, particularly Vietnam, are only being hit now. We also discuss the possible duration of the crisis. Finally, the fourth section considers the potential impact that this economic downturn may have on regional cooperation.
Southeast Asian-Centred Economies or Economics?

Context

According to the Bangkok Declaration of 1967 that marked the founding of ASEAN, the organisation aimed to further economic and social cooperation. Another of its founding goals was to become a regional organisation encompassing all ten Southeast Asian countries. In order to achieve these goals, over the years ASEAN has pursued a policy known as ‘regional resilience’. The idea behind this policy is that economic growth will give rise to stable domestic political environments, which in turn will spur on further economic growth. Regional resilience would occur when all the countries in the region were successfully pursuing national resilience. This idea was fairly successful, and prolonged periods of economic growth in the 1980s and early 1990s created conducive conditions for expanded economic cooperation within ASEAN (Chin Kin Wah 1997, Mutalib 1997).

The late 1980s and early 1990s also saw the gradual rapprochement between ASEAN and Laos and Vietnam, respectively. This process went hand in hand with the regional initiatives to resolve the Cambodian conflict in the latter half of the 1980s, with a major breakthrough in improved relations following the formal resolution of the Cambodian conflict through the Paris Agreements on Cambodia of October 1991.1 The establishment of diplomatic relations between Vietnam and Singapore and between Vietnam and Brunei Darussalam, respectively, helped bring about a rapprochement between Vietnam and all ASEAN members. Vietnam acceded to the Bali Treaty in 1992, became an ASEAN Observer the same year and was granted full-membership in ASEAN in 1995 (for details see Amer 1996 and Hoang Anh Tuan 1993, 1994, and Nguyen Vu Tung 1993).

In the case of Laos, accession to the Bali Treaty also took place in 1992 at which time Laos became an ASEAN Observer. Finally, Laos was granted full membership in the Association in 1997. Following the United Nations peace-keeping operation and the formation of a new coalition government after general elections in May 1993, Cambodia’s relations with ASEAN
were normalised and expanded. Cambodia acceded to the Bali Treaty in 1994 and became an ASEAN Observer in 1995. Finally, Myanmar has been brought closer to ASEAN through a process which has officially been termed as ‘constructive engagement’ by ASEAN (Ajibewa 1998: 31–2 and Malik 1997: 60–61).\(^2\) Myanmar acceded to the Bali Treaty in 1995, became an ASEAN Observer in 1996 and was granted full membership in ASEAN in 1997. Thus, ASEAN has expanded from six to nine members since 1995.\(^3\) Cambodia was supposed to have joined ASEAN in July 1997 alongside Laos and Myanmar but Cambodia’s membership was put on hold due to the internal political problems in the country in July 1997.\(^4\)

Incidentally the latest expansion of ASEAN in July 1997 took place at the same time as countries in the region began to experience the financial crisis that has escalated to a region-wide phenomenon affecting most of East and Southeast Asia. There are even indications that the crisis may become a global problem. The effects of the crisis on Japan’s economy over the past twelve months undoubtedly contributed to the recent resignation of Prime Minister Hashimoto. The United States of America is also starting to suffer as a result of decreased exports to Asia because of the relative strength of the dollar. This is one of the reasons behind the 299 point fall (the third greatest ever) of the Dow Jones on 4 August 1998 (Business Briefing 1998).

In the year following July 1997, the countries of Southeast Asia have undergone great change. This has been most apparent in Indonesia where Suharto was forced to resign after 32 years in power. Indonesia as the ‘big brother’ of ASEAN is facing internal crisis and has fallen into its worst recession for more than 30 years. Unemployment is expected to worsen considerably and reach 17 million out of a total work-force of 90 million by the end of the year (Shiner 1998: 4). Forty per cent of Indonesia’s population is currently living below the poverty line, and that number is expected to climb to fifty per cent by the middle of next year (Richardson 1998: 1 and 5). This is contributing to the dramatic increase in the number
Southeast Asian-Centred Economies or Economics?

of refugees fleeing Indonesia (Hiebert and Jayasankaran 1998: 19–20). Furthermore, the attacks on the ethnic Chinese population in May 1998 have prompted an estimated 30,000 of this important business community to leave Indonesia. The repercussions from these attacks have also affected further ethnic Chinese investment in the region (see further Salil Tripathi 1998 and Margot Cohen 1998). However, the consequences of the crisis are not limited to Indonesia. Thailand, the Philippines and Malaysia have all been affected and Singapore is expecting a recession in 1999.

Initially, little attention was paid to the newly admitted countries of Vietnam, Myanmar and Laos, and many thought that they had escaped unscathed from the crisis. However, recent reports attest to the contrary. It is only now that the effects are being felt in these countries. Given that these countries expected to benefit by joining a strong ASEAN, what can they expect now from a weakened ASEAN? The theory of regional resilience based on economic growth might now be expected to point towards regional succumbing based on economic downturn. What therefore are the implications for regional cooperation?

Regional Resilience, Economic Cooperation and ASEAN Expansion

Regional resilience driven by economic growth

One of the initial ideas linking economics and regional security was provided by the Indonesians, who put forward the idea of national resilience in the 1960s. National resilience involved the interaction of economic growth and a stable domestic political order. These two factors were supposed to be mutually reinforcing – the growth of national economies in the region would lead to domestic stability in individual countries; this community of stable nations, in turn, would contribute to a stable region (Dibb, Hale, and Prince 1998: 15). The security dimensions of the interaction between economic growth and internal stability, and by extension, regional stability, must not, in this view, be underestimated:
Because ASEAN views regional security in terms of national and regional resilience, achievement and preservation of domestic stability is a prerequisite for ASEAN to succeed in its goal of creating a regional order in Southeast Asia (Hernandez 1998: 63).

Economic Cooperation

Despite the early recognition that mutual economic growth would be good for the region, very little formal cooperation occurred in the field of economics during ASEAN’s first 25 years. Although economic cooperation was a stated objective of ASEAN, it is widely accepted that economic cooperation has not been as successful as political and security cooperation.5

Three main areas of economic cooperation are intra-ASEAN trade, ASEAN industry and ASEAN agriculture. However, to begin with, cooperation in these areas relied more upon the private sector rather than on governmental initiatives (ASEAN Economic Cooperation 1997: 84–85). The initially slow development of formal cooperation was due to ASEAN members having to develop the necessary degree of trust, which was gradually established through political and diplomatic measures such as the regular meetings of ASEAN officials:

The many meetings ASEAN officials went through to decide a course of action heightened familiarity and understanding. Indeed one criticism of ASEAN cooperation is the enormous number of meetings officials had. Without doubt, there may have been excesses, but it appears mutual trust and confidence within ASEAN were outcomes of familiarity (Ibid: 84).

ASEAN’s deliberately slow approach to developing the trust necessary for economic cooperation was also important (Naya and Plummer 1997: 119–23). This slow approach meant that it was not until 1992 that ASEAN’s major economic initiative, the creation of a free trade area, the ASEAN Free Trade Area (AFTA), was announced. The former Secretary General of ASEAN, Dato’ Ajit Singh has referred to the Fourth ASEAN Summit, which announced the formation of AFTA, as ‘the turning point in ASEAN economic cooperation’ (ASEAN Economic Cooperation 1997: v.) AFTA is the most advanced
Southeast Asian-Centred Economies or Economics?

example of formal economic cooperation within ASEAN thus far. It is due to be fully implemented by 2003 for the ASEAN-6 and by 2006 for Vietnam. However in light of the crisis, Indonesia and Malaysia in particular may be wary of opening up their internal markets until they have recovered. This may affect the eventual implementation date of AFTA.

In addition to AFTA, much attention has been paid recently to a more informal type of cooperation – the creation of ‘Sub Regional Economic Zones’ also known as ‘growth zones’ or ‘growth triangles’. Growth triangles are largely driven by market forces and are characterised by ‘linkages of complementary economic activity across borders’ (Ibid.: 138). Growth triangles do not necessarily have to be formal linkages nor do they usually involve whole countries; most often they consist of neighbouring regions of adjacent countries that offer different comparative advantages. Even though growth triangles are typically informal mechanisms, they still rely upon governments to provide a facilitative role to allow the growth, and can become formalised (Hernandez 1995: 64).

The most notable growth triangle within ASEAN is the SIJORI triangle (Singapore-Johor-Riau). However, most linkages are still primarily bilateral, e.g., Singapore-Riau and Singapore-Johor. Very little cooperation has developed between Johor and Riau. Other proposed growth triangles include the Indonesia-Malaysia-Thailand Growth Triangle and the East Asian Growth Area which includes Sabah, Sarawak and Labuan in Malaysia, the Mindanao region of Brunei and the Philippines and North Sulawesi, East and West Kalimantan in Indonesia (Acharya 1995: 174).

Donald Weatherbee provides a useful analysis of the rationale behind informal ASEAN economic cooperation. Among other things, he suggests that national interests related to the security of states will have higher priority and take precedence over national interests related to the development of industrialisation through cooperation in growth zones (Weatherbee 1995: 426). It is true that economic issues have in the past taken a back seat to security issues; hence a
necessary condition for the creation of AFTA and for the increased cooperation in growth zones may have been the pre-existence of a stable political environment within the ASEAN grouping and a period of strong economic growth. In accordance with the theory of regional resilience, it was this economic growth which bolstered internal stability in ASEAN and helped to produce the level of confidence necessary to create AFTA and further economic cooperation. The economic growth achieved by ASEAN members since its founding has been more to do with the existence of the organisation, and its political achievements in preventing armed conflicts between its members, than intra-ASEAN economic cooperation (Kurus 1993: 829). It was economic growth helped by a good reputation that paved the way for better economic cooperation between members.

The Economic Factor in the Expansion of ASEAN in the 1990s
The relative importance of economics in the expansion of ASEAN cannot be understood without considering the political and security concerns of the original member nations. One must consider both the overall ASEAN perspective and the perspectives and motivations of the individual member-states which influence decisions about rapprochement with neighbouring countries and whether to include them as ASEAN members. Furthermore, Laos, Myanmar and Vietnam also have their respective motives for seeking better relations with ASEAN and eventually for seeking membership in ASEAN. The priority in this study is to look more closely at the ASEAN side of the situation while at the same time taking into consideration the perspectives of the other three countries. This is motivated by the fact that it is the ASEAN member-states who decide if new members should be allowed into the Association. Another pertinent aspect to take into consideration is the interconnection between the economic, political and security factors and the mutually reinforcing impact they have on enhancing and expanding overall regional cooperation in the Southeast Asian region.
Economic considerations

Economic considerations range from the specific, i.e., to increase trade and encourage investment, to the general, i.e. to enhance economic cooperation within the region and to promote economic growth and overall development in the countries of the region. Given the disparity in the level of economic development among the ASEAN-6 and between them and Laos, Myanmar and Vietnam the priority given to the different considerations would vary considerably. The disparity can be seen by looking at economic data from 1996. In that year the average per capita income of Laos, Myanmar and Vietnam was approximately US$271, whilst that for the ASEAN-6 was US$1,700 (Singh 1997: 129).

As seen from the ASEAN-6 perspective, the economic goals behind expanding membership in the Association can be described as follows: creating a larger market for intra-ASEAN trade within an expanded AFTA; facilitating investment in Vietnam, Laos and Myanmar; and more generally facilitating and creating conducive conditions for overall economic cooperation with the Southeast Asian region. Of course, these economic goals were formulated at a time when the economies in most of the ASEAN-6 were growing at a fast pace and when the specifics of AFTA were widely agreed upon.

As seen from the perspectives of Laos, Myanmar and Vietnam, the economic benefits of closer cooperation and eventual membership in ASEAN included increased investment by the ASEAN-6; increased export opportunities to these countries; and more assistance in development efforts from the ASEAN members. An additional consideration could have been that membership in ASEAN would appease fears among foreign investors about how safe these countries are as investment opportunities (Langhammer 1997: 173).

The new members’ hopes for increased investment, while initially fulfilled, have been dampened by the current economic crisis in the region. In 1996, 16.9 per cent of Vietnam’s foreign direct investment (FDI) came from other ASEAN countries (Mya Than 1998: 153). However, this number had increased
to 27.5 per cent by January 1998 (Vietnamese Embassy homepage). Of Vietnam’s total FDI in 1998, 25.7 per cent came from Singapore, Malaysia and Thailand. Up until March 1997, 48.1 per cent of Myanmar’s FDI came from ASEAN members. All of this investment, however, came from Singapore, Malaysia, Indonesia and Thailand – all countries which have been severely hit by the Asian crisis (though Singapore less severely than the others). Up until October 1995, 43.4 per cent of Laos’ FDI came from ASEAN states. Of particular interest is the fact that 42.4 per cent of Laos’ FDI came from Thailand. In 1998, 65 million U.S. dollars has been pledged to Laos, of which Thailand has pledged 57 million. However most of the money is currently not expected to materialise because of Thailand’s own economic problems (Lintner 1998: 53). Likewise, Malaysia recently announced that it was cutting back on proposed investment in Myanmar (Reuters 1998). Thus the (albeit delayed) impact of the crisis on the new member states is largely a result of the large proportion of the new members’ FDI coming primarily from other Asian (mainly ASEAN) countries, investment that is now being cut back. As a result of the crisis initially hitting three of the ASEAN-6, much of the expected foreign investment from those countries has dried up. Malaysia, Indonesia and Thailand have to straighten out their own houses before they can resume investing in the new members.

On the other hand, figures show that although the new members depend to a large extent on Asian FDI, they do not depend on exports to other ASEAN states any more than do the ASEAN-6. In 1995, only 21 per cent of Laos’s and 25.7 per cent of Myanmar’s exports were to ASEAN states. The average of intra-ASEAN exports in 1993 was 20.2 per cent. Imports are another story, however. In 1995, 77.3 per cent of Laos’ and 67.3 per cent of Myanmar’s imports were from ASEAN states but the ASEAN average in 1993 was only 17.5 per cent. The contrast between Vietnam and the rest of ASEAN was less pronounced – in 1993 29.4 per cent of its imports came from ASEAN states.6
Political considerations

As seen from the perspective of the ASEAN-6, expansion of membership was aimed at fulfilling the original 1967 goal of creating an Association that encompassed all ten countries in the Southeast Asian region, i.e., fulfilling the notion of ‘One Southeast Asia’ (see Chin 1997: 6–7). This fundamental vision is the major underlying political motivation and rationale for initiating the process aiming at expanding membership in ASEAN. Without this political motivation, expansion of ASEAN would neither have been envisioned nor initiated from the outset and thus the expansion would not have taken place.

The rapprochement between ASEAN and Laos, Myanmar and Vietnam, respectively, can be viewed as politically motivated by the general interest in improving relations. The willingness among the Southeast Asian countries to first improve and then expand relations with each other was brought about by changes at the domestic, regional, and global levels which made it possible to re-think earlier foreign policy priorities and to re-shape interstate relations within Southeast Asia. These changes included the initiation of reform and renovation in Laos and Vietnam, the process leading up to the resolution of the Cambodian conflict through the Paris Agreements of October 1991, and the end of major power confrontation between China and the Soviet Union and between the Soviet Union and the United States (i.e. the end of the Cold War) (see Ross 1993). These developments contributed to creating conditions conducive to re-shaping the relations between states in the Southeast Asian region and thus ushered in a new era of cooperation in the region.

The political willingness to cooperate is illustrated by the fact that the Southeast Asian countries have sought to expand inter-state relations within the region. ASEAN actively sought to build better relations with the other Southeast Asian countries by gradually integrating them into the ASEAN framework for regional cooperation and eventually by granting Vietnam, Laos and Myanmar full membership in the Association. Among these three countries, Vietnam and Laos began at an early
stage to work actively on improving relations with the ASEAN member-states by expanding economic interaction, by acceding to the Bali Treaty in 1992, and by applying for full membership in the Association, thus accepting the code of conduct for inter-state relations established by ASEAN. Later in the 1990s Myanmar followed its neighbours in a similar process of improved and expanded relations with ASEAN.

Security considerations

The primary security consideration is the ambition on the part of the ASEAN-6 to create a more stable regional environment in which the individual countries can both concentrate on development efforts and create better relations amongst themselves. Seen from this perspective there are at least two dimensions of security: one relates to internal development in the various countries and assuring that other countries in the region do not undermine efforts to enhance internal security and stability; the other, at the inter-state level, aims at bringing about a more secure regional environment through the establishment of better relations among states and by managing potential disputes between neighbouring countries.

The uneasiness and animosity that existed in the region between ASEAN and Laos and Vietnam during the Cambodian conflict (until the mid 1980s), were important security considerations. There was also tension in the bilateral relationships between Thailand and each of the Indochinese countries due to the conflict in Cambodia, the Vietnamese military presence there for the decade prior to 1989, the disputes between Thailand and Laos over border issues, and the activities of Laotian refugees based in Thailand (see Amer 1989: 57–58 and Funston 1998: 300–301). Rapprochement, normalisation of relations, expanded cooperation, and the integration of Laos and Vietnam in the ASEAN framework for managing inter-state relations within Southeast Asia have all been initiatives which have been motivated by a desire to secure a more stable security environment within the region. In other words the expanded regional order has been helped along by an increase in shared perceptions about the necessity for
enhanced regional cooperation and respect for agreed-upon rules and norms for inter-state behaviour.

One specific security concern relates to China’s military links with Myanmar and how this has been perceived by a number of ASEAN members. Myanmar was promptly integrated into the ASEAN framework for regional cooperation when it acceded to the Bali Treaty in 1996, followed by ASEAN Observer status the same year and ASEAN membership in 1997. This can be contrasted with the pattern of Laotian integration which began with accession to the Bali Treaty in 1992 but was not completed with ASEAN membership until 1997. The speed with which Myanmar achieved membership can partly be attributed to the goal of achieving the goal of ASEAN-10 by the 30th anniversary of the Association in 1997, but the security dimension – the desire to balance China’s influence by integrating Myanmar into ASEAN and into the ASEAN framework for regional cooperation certainly contributed to the swiftness of the process.8

Relative importance of the three factors

Political considerations appear to have been crucial in creating the necessary basic conditions for an expansion of membership in ASEAN the first place. In other words, the fact that the ASEAN-6 had from the outset formulated the vision of ‘One Southeast Asia’ with all ten Southeast Asian countries as members of the Association was a necessary condition for any expansion taking place. There was also a political interest among the other Southeast Asian countries in improving relations with the ASEAN countries and gradually integrating into the regional framework for regional cooperation. Changes within countries of the region, within the region and in relations between the major outside powers, i.e. China-Soviet Union and Soviet Union-United States, further contributed to conditions conducive to rapprochement and gradual integration.

The security factor is important given the history of internal conflicts as well as inter-state conflicts in the region. Expanding the acceptance of the Bali Treaty as a code of conduct for
inter-state relations and expanding ASEAN membership within the Southeast Asian region are processes aiming at enhancing the overall security in the region by promoting regional cooperation. Thus, security considerations help to explain the expansion of ASEAN.

Economic considerations surrounding ASEAN expansion appear to have been more important for the new members – Laos, Myanmar, and Vietnam – than to the original six, given the fact that the original ASEAN members are major foreign investors in and major trading partners of the three newcomer countries. This also suggests that the current economic crisis may affect Laos, Myanmar and Vietnam to a greater extent that was initially apparent.

The Effects of the Crisis on Laos, Myanmar and Vietnam
During the first nine months of the crisis little attention was paid to Vietnam, Myanmar and Laos, and many thought that they had escaped unscathed. This was primarily due to the fact that these countries did not have stock exchanges or convertible currencies. Furthermore, they simply had not received the same levels of foreign investment as other countries in the region such as Thailand and Indonesia. However, side effects from the initial impact on Indonesia, Thailand, Malaysia and South Korea are now being felt in these countries. The economies of all three new ASEAN members are now suffering repercussions from their neighbours’ troubles. The value of the Laotian kip and the Myanmese kyat have plummeted in the past year. The Laotian kip has fallen from 950 to the dollar in late 1996 to 3,300 to the dollar in July 1998 (Lintner 1998: 52).

In March 1998, the acting Governor of Vietnam’s central bank, Do Que Long admitted that Vietnam’s economy is also in crisis, primarily as a result of reduced foreign investment and reduced competitiveness of Vietnamese exports. The Ministry of Industry – the largest state employer – announced in April that it was forced to cut its workforce by 15 per cent as a result of the crisis. In July, Vietnam was forced to lower its
economic growth target for 1998 from nine per cent to between six and seven per cent. Furthermore, foreign investment in Vietnam fell by 22 per cent in the first six months of 1998. The deputy minister of planning and development, Nguyen Nhac, blamed the fall on the regional crisis, but also admitted that corruption was partly to blame.9

As indicated by the figures in the previous section, Laos and Myanmar are much more dependent on intra-ASEAN trade than Vietnam. In addition Vietnam is less dependent on ASEAN FDI than Laos and Myanmar which augurs slightly better for it in the long run, and suggests that it may recover faster than Laos or Myanmar. The full extent of the impact of the economic crisis in the region, however, is not limited to trade and investment links with the ASEAN-6 but also with the countries in East Asia. Some two-thirds of FDI in the case of Vietnam comes from ‘Asian investors’ – primarily countries in East and Southeast Asia (Country Report. Vietnam 1998: 18–19).

Because of the previous dependence on Singapore, Malaysia, Thailand and Indonesia, attracting new sources of FDI must become a priority for these countries as they will not be able to rely on further investment from their fellow ASEAN members. This will be hampered, ironically, by the fact that they will now be in competition with many of their fellow ASEAN countries. Furthermore, now that the spotlight has been turned upon Asia, investors have realised that the levels of corruption are great in many Asian countries. Countries such as Vietnam, Myanmar and Laos are unlikely therefore to attract new foreign investment until such time as they liberalise their economies further and become more transparent to potential investors. The leaders in these countries might be reluctant to undertake such reforms, however, because they may fear that reforms could possibly cause them to lose their grip on power. This is a vicious circle – in Vietnam the renovation policy of doi moi is now experiencing problems because of corruption (Keenan 1998: 28–29). In addition, a major credit company (Moody’s) has recently lowered Vietnam’s
Challenges for ASEAN: Implications for Regional Cooperation

There are several challenges for ASEAN in the current situation. The first and most acute challenge facing ASEAN is the ongoing economic crisis which affects all the member-states, albeit in different ways and with a varying degree of severity. The crisis is also a major challenge to regional cooperation—not only to economic cooperation but also to political and security cooperation. The impact of the economic crisis on Indonesia has already caused serious domestic unrest and continues to threaten stability in the country. As Indonesia is the largest ASEAN member internal instability can, if not managed, have a negative impact on stability in the region as a whole.¹⁰

The ASEAN countries have put particular emphasis on promoting regional resilience through economic development which was expected to result in greater political support for the governments and lead to enhanced political stability. The current crisis and its repercussions in various Southeast Asian countries underscores the importance of looking at internal sources of regional stability. It further indicates that the major challenge, both domestically in the various countries and at the regional level, is the on-going economic crisis.

The second challenge lies in the field of conflict management. Earlier research suggests a high degree of success in managing conflicts between the original member-states of ASEAN (see Amer 1997: 337). Furthermore, ASEAN has almost reached the goal of making the Association a truly regional association—nine out of ten Southeast Asian countries are currently members. What then are the challenges that lie ahead for ASEAN in that field?

One challenge is the risk of disputes arising in the midst of the economic crisis among the ASEAN-6 and the need to
manage such disputes. An example is the recent increase in
tension between Malaysia and Singapore which has centred
over three main issues: water, Malaysian workers’ savings, and
railway land, most of which have been problematic for years
without causing the current level of tension (see Ganesan
1998). It seems likely that this heightened tension has its
roots in national mobilisation in the face of the economic
crisis on both sides rather than in the issues *per se*.

The second challenge relates to the integration of the new
members of ASEAN into the conflict management approach
used by its original members and more generally into the
*modus operandi* of the Association. These two challenges are
inter-connected since making the conflict management
framework more effective could also be a way of addressing
new problems arising from the expansion of membership in
ASEAN. Integrating new members could be a way to defuse
deep-rooted suspicion and conflict behaviour in the same
fashion as was achieved between the original five members of
ASEAN during the formative years. In this context it can be
noted that ASEAN does have in its favour the fact that it has
experience in dealing with heterogeneity and has done so
successfully in the past (Funston 1998: 27–28).

One of the imperatives in successfully integrating the new
members is to prevent the development of a ‘two-tier’ ASEAN.
Among those studying economic convergence there is general
agreement that poor countries can catch up to their richer
counterparts ‘provided that internal macroeconomic conditions
are conducive to capital formation’ (Langhammer 1997: 166).
The danger to the new members is that they may become more
isolated by the crisis and this might make them less willing to
carry out more thorough reforms of their economies.

If the new members are successfully integrated into ASEAN
and behave in accordance with the ASEAN framework for
conflict management, the Association will be able to focus
even more attention on bringing about the successful manage-
ment of the conflicts affecting the Southeast Asian region.
This will also provide a solid foundation for ASEAN’s policy
of constructive engagement vis-à-vis China, particularly in the South China Sea where China has territorial conflicts with several of the ASEAN members. It would also put ASEAN in a good position to continue to expand its policies aiming at creating a more stable and co-operative environment in the wider Pacific Asia through the ASEAN Regional Forum. However, if the process of integrating new members proves to be complicated there could be a period during which ASEAN becomes more introverted because of internal preoccupations. The current economic crisis appears more likely to cause an introverted ASEAN than the process of integrating new members. (see further Dibb et. al. 1998: 21–22). The efforts to cope with the domestic difficulties resulting from the ongoing economic crisis are at the forefront of not only economic but also political priorities for the leaders in the ASEAN countries. Given this situation, the Association could become less attentive to its relations with non-Southeast Asian powers and to events taking place outside the region. Such a development could prove to be detrimental to the aims of achieving greater stability and expanded cooperation in the wider Pacific Asian region.

If this negative scenario materialises and the economic crisis persists, then the possibility arises that China might use the crisis to pursue more assertively its territorial claims in the South China Sea. This would be a serious threat to regional security. However, given its supportive response to the Asian crisis this far (in particular not devaluing the yuan), it seems unlikely that China would want to pursue this course of action.

Looking at the broader picture the most significant measure of ASEAN’s stability will be to see how the organisation can cope with Indonesia’s social and political turmoil. For the foreseeable future Indonesia will not be able to provide effective leadership within ASEAN. The same goes for Thailand and Malaysia, where the focus will also be on stabilising domestic issues.

In addition, it is possible that the policy of non-interference will be challenged again. This has been the subject of much
Southeast Asian-Centred Economies or Economics?

attention recently and was discussed at the 31st ASEAN Ministerial Meeting (AMM) in Manila. In his opening statement to a media briefing following the AMM, Rodolfo Severino, the Secretary-General of ASEAN stated that the Foreign Ministers of the ASEAN members had

re-affirmed the principle of non-interference as foundation of intra-ASEAN and, indeed, of the entire inter-state system. At the same time, they resolved to interact more intensively with one another with respect to developments affecting a member state or ASEAN as a whole. While this did not represent a sharp departure from policy or practice, the discussion of the issue brought the issue to the surface and clarified ASEAN’s position on what had become the subject of much public attention.12

This statement is remarkable in admitting that ASEAN has, at least to some degree, departed from the ‘policy or practice’ of the Association. Any change to this policy would be a significant break from ASEAN tradition, and could mark a new era for the organisation.

Now that the period of economic growth has ended for the next few years at least, the relatively stable internal political environments which formed the backbone of national resilience are liable to be challenged. More than ever, states in the region will view security in economic terms. The current level of economic cooperation – which has taken 30 years to achieve – could be overshadowed by an unprecedented level of economic competition, which in turn could have negative repercussions on regional cooperation.

Notes
1 For details on the improvement of relations between ASEAN and Vietnam see Ramses Amer, ‘Vietnam and Southeast Asia since the fall of Saigon in 1975’, in Sydostasien (Southeast Asia), Skrifter utgivna av Sällskapet för asienstudier 7 [Publications of the Asia Society, No. 7], edited by Farid Abbaszadegan (Uppsala, 1996), pp. 68–69 and 70–73 (hereafter ‘Vietnam and Southeast Asia’). On different aspects of the process leading to resolution of the Cambodian conflict and the role of different actors see among others Muthiah Alagappa, ‘The Cambodian Conflict: Changing
Ramses Amer and David Hughes: The Asian Crisis and Economic Cooperation


2 The basic idea behind constructive engagement is that improved relations can be encouraged by engaging a state that is perceived as threatening or aggressive into a framework of dialogue and other confidence building measures (CBMs). Constructive engagement is thus intended to make the threatening states less inclined to engage in aggressive behaviour. The CBMs can range from diplomatic initiatives and expanded political contacts to upgrading economic co-operation through expanded trade and increased investments.


4 For the official ASEAN position see Paragraph 15 in the Joint Communiqué, The Thirtieth ASEAN Ministerial Meeting, Subang Jaya, 24–25 July 1997. The text of the Communiqué can be found on the ASEANWEB (http://www.asean.or.id/).

5 See observation made about “broad consensus” on this issue in Chin, op. cit., p. 2.

6 Unless otherwise stated, figures for Myanmar and Laos come from Than, op. cit., pp. 151–154, those for Vietnam and the rest of ASEAN from ASEAN Economic Co-operation, p. 42.

7 For more details on ASEAN-Indochina relations during the Cambodian conflict and the perspectives of the two groupings on the conflict see Johan Saravanamuttu, ‘The ASEAN Perspective and Role in the Cambodian Peace Process’, in Ramses Amer, et.
Southeast Asian-Centred Economies or Economics?


8 Ademeri, op. cit., p. 33; and, Malik, op. cit., pp. 60–61. Ademeri refers to this as being ‘symbolically’ one of the reasons for accepting Myanmar into ASEAN.


12 Opening statement of Rodolfo C. Severino, ASEAN Secretary-General, at a media briefing on the ASEAN Ministerial Meeting, ASEAN Regional Forum and ASEAN Post-Ministerial Conferences in Manila, 24–29 July 1998. The text of the statement has been taken from the ASEANWEB (http://www.asean.or.id/).

References


Ramses Amer and David Hughes: The Asian Crisis and Economic Cooperation


Amer, Ramses, Johan Saravanamuttu, and Peter Wallensteen, The Cambodian Conflict 1979–1991: From Intervention to Resolution, Penang: Research and Education for Peace, Universiti Sains Malaysia and Department of Peace and Conflict Research, Uppsala University, 1996.


Southeast Asian-Centred Economies or Economics?


“Mahathir says Malaysians cutting Myanmar investment”, Reuters (10 March 1998)
Ramses Amer and David Hughes: The Asian Crisis and Economic Cooperation


Opening statement of Rodolfo Severino, ASEAN Secretary-General at a media briefing on the ASEAN Ministerial Meeting, ASEAN Regional Forum and ASEAN Post-Ministerial Conference in Manila, 34–39 July 1998 (http://www.asean.or.id/).


Southeast Asian-Centred Economies or Economics?


Conclusion

Mason C. Hoadley
Lund University

Galvanised by the onslaught of the current economic crisis in Southeast Asia, the present contributions go ‘back to basics’. They concern themselves with such fundamental issues as the foundations of Southeast Asian economies – both what they are (and have been) and what they should be – thereby raising the issue of new departures within the science of economics with regard to Southeast Asia.

Economics of Southeast Asia
Classification of the principles upon which Southeast Asian economies rest is not merely an exercise in academic taxonomy. As the IMF is discovering, a standardised treatment for economic basketcases works (if the international organisations act consistently) only when the patients share the same constitution and suffer from the same malady. As some cynics (including The Economist) have observed, the IMF’s insistence on currency reform and major political renovation in Southeast Asia were toned down when applied to Russia, given the presence of its nuclear weapons and concern in Washington and Bonn for Russia’s political stability. In any event, the existence of a number of Southeast Asian economic characteristics – including crony capitalism, uneven direct state involvement in the economy coupled with lack of regulatory machinery,
Southeast Asian-Centred Economies or Economics?

and development dependent upon foreign capital and loans – which departs sharply from western models taxes even the most generous interpretation of a ‘market’ economy.

If the labels ‘market’, ‘capitalistic’, or even ‘mixed’ economy (to which Jakarta gallows humour adds ‘mixed-up’ economy) do not adequately describe Southeast Asian realities, what does? Here it must be conceded that there does not seem to be an easy answer. One approach would be to divide up the economy under scrutiny into sectors and judge each separately, along the lines sketched in Figures 1.1 and 1.2. Another approach would be to attempt to apply the self-proclaimed ‘socialism’ of Burma, Indonesia, and Vietnam as the basis for comparing and contrasting the respective political-economic systems. (Hoadley 1991). Aside from the unsurprising phenomenon of striking similarities between Burma and Indonesia coupled with a similar anti-capitalist, anti-Christian and anti-colonial heritage shared by most states coming into independence after World War II, the results only emphasise the wide range of individual expressions of ‘socialism’. These range from forms of Buddhist socialism, through a corporatist system (Pancasila), down to orthodox Marxist-Leninist models. The resulting syncretism can be seen as the anti-market equivalent of ‘mixed’ economy as a catch-all category with little analytical value. In short, Southeast Asian economies call for further investigation in order to determine the basic premises under which they operate. By providing an opening to sources of information not heretofore available, the crash of 1997–98 can be used to advantage to reconstruct more accurately the workings of those economies.

Perhaps the Southeast Asian economies’ greatest departure from the norm lies in the dominance of economic actors of Chinese origin. The staggering imbalance existing between the percentage of the Indonesian population who are ethnic Chinese and their share of the GNP – in the range of 5% of the population holding 75% GNP, or even 4% of the population holding 80% of GNP (and similar, if not so extreme,
figures apply to Malaysia and Thailand) – is overshadowed by the all but irreplaceable position of Sino-Indonesians in the distribution net for consumables and households goods. This dependence has been brought home by the exodus of precisely these small and middle-sized retailers and distributors who have fled the country since the widespread looting of Chinese-owned businesses during the May riots. Were similar events to plague Thailand, Malaysia (as, in fact, happened in 1969), or even the Philippines, the effects on the local economy could easily mirror the current situation in Indonesia. Thus, the ethnic dimension of Southeast Asian economies gives them an unique challenge, one not faced by most mainstream economists. As the issue needs to be addressed more directly than it has heretofore in the present project, a few words of background are appropriate.

Historically the position of Chinese-origin economic actors is directly bound to the imposition of colonial (neocolonial in Thailand) economies in the kingdoms of Southeast Asia. One does not need to be an adherent of Mahatir’s *The Malay Dilemma* (1970) to recognise that the inhabitants of the region in pre- and early colonial times had nothing to fear from competition with the Chinese merchants who had been plying their trade there for centuries. In none of the great trading centres of Southeast Asia, mainland and island world alike, were Chinese merchants more powerful or more economically dominant than any other group. Local traders and merchant princes with their direct contacts with the royal houses dominated local and regional commerce.

Only with the establishment of European economic dominance during the eighteenth century on Java and the nineteenth for the remainder of Southeast Asian did intensive migration of Chinese to the region occur. More importantly, the European powers systematically utilised the Chinese or Sino-Southeast Asians as middlemen in their economic dealings with the local population. For this they were rewarded with special status and privileges, albeit paying a high price in terms of artificial isolation from the majority of inhabitants.
Moreover they were pushed into special professions which were as useful to the colonial powers as they were odious to the local population. Distilleries, tax farmers, collectors of the European dues, toll gate overseers, all tended to be drawn from the Chinese immigrant population. At the same time Sino-Indonesians and Chinese were consciously excluded from productive professions in agriculture such as coffee cultivation and agribusiness such as production of sugar and indigo. For political reasons the local population were favoured by the Europeans, despite their ineffectiveness in delivering high quality export goods in comparison to the Chinese-origin groups (Hoadley 1994: 100–101). During the late colonial period the latter were not even allowed to reside in the hinterlands or rural villages. Hence the stereotype of urban-based shopkeeper or trader with upward mobility conforming to the colonial power is one more or less forced upon the Chinese-origin groups by the colonial institutions they served.

The position of Sino-Southeast Asians inherited by the national states emerging after World War II became even more ambivalent. The first decades of independence generally saw a concerted effort to replace the Chinese-origin groups by local ones within the new, national economy. State-owned enterprises run by bumiputra (‘sons of the soil’, the indigenous population or its equivalent in mainland Southeast Asia), reserved managerial positions for locals. Programmes such as Indonesia’s ‘Benteng Programme’ and Pibun’s conscious preference of Thai over Sino-Thai in the state run economic sector provide further examples. Thus, when nationalists came to power everything Chinese or European was out of political and economic fashion, at least on the surface. This was the era of Southeast Asian solutions for the problems confronting the emerging nations; the attainment of political independence called for economic development on local terms.

However as a result of the turbulence of the 1960s and 70s the political and developmental paradigm was turned upside down. During the past three decades the Southeast Asian countries eagerly pursued western-style development strategies
that resulted in their emergence as ‘New Tigers’ on the model of the East Asian Newly Industrial Countries (NICs). The magic formula which was to bring prosperity was western-style liberal economic policy, i.e., unbridled growth in production supported by a local government which ensured stability within a highly controlled socio-political situation. Just as in late colonial times, the new paradigm called for the type of entrepreneurial skills, business acumen, and capital resources possessed by the Chinese-origin groups. ‘Chinese-ness’ was ‘in’. With the blessing and often the active participation of the national elite these Chinese-origin groups were at the forefront, if not the leading edge, of the spectacular development of the economies of Thailand, Malaysia, and Indonesia down to July 1997. Hence from even so cursory review of history it would seem that the ‘usefulness’, i.e., acceptability of Sino-Southeast Asians is dictated by the rhythm or mode of economic development.

Yet a lack of precision as to what type of economies dominate in the region during (and before) the economic crisis makes any prediction concerning this group’s future in economic development particularly precarious. Currently, it appears that in Indonesia Chinese-origin groups are most definitely ‘out’ with regard to economic development. Despite their being on the receiving end of popular discontent in the mid-May riots, the government has taken remarkably little action with regard to assigning responsibility to the perpetrators or ensuring that it will not reoccur. Only under strong pressure from women’s groups has the government decided to investigate gang-rapes of Chinese-origin Indonesian women during these riots. Some two months after the events (and the installation of a new president), the government finally set up a commission to investigate what happened to up to a thousand victims. This contrasts to the immediate mass national concern with the trials of military officials responsible for the shooting of five students at Trisakti University in May or the dozen or so activists kidnapped earlier in the year, ostensibly by members of the armed forces. More telling are the re-
peated reminders from many highly placed figures in the Indonesian business community (themselves of Chinese origin) concerning the thousands of Sino-Indonesian who fled the country with their funds who are now waiting for reassurances from the government as to their personal safety before returning to rebuild their businesses. The reminders underscored the extent to which the distribution network of the economy is dependent upon these groups. Even the IMF has made it a condition that the government encourage their return so that the distribution system can functioning again.

But governmental response has been almost the opposite. In June 1998 President Habibie gave these Chinese-origin distributors a warning to return and take up their duties, ‘or else ...’, which seems to mean that whatever concession or license they were operating under would be revoked. At the same time, the President and the Minister of Small and Middle-sized Businesses and Cooperatives have repeatedly encouraged young entrepreneurs to become engaged in the distribution network as a good career opportunity. By August 1988 cooperatives plan to take over the distribution of certain consumables, among them rice and cooking oil, themselves. Their distribution system has already been dubbed the ‘alternative distribution system’ and threatens to become institutionalised, although how realistic is open to question.

Both Abdurrachman Wahid, head of the NU, and Megawati Sukarnoputri of the PDI faction have complained that several ministers are anti-Chinese, which may explain the government’s lack of action in the activities which could lead back to normalcy for the Sino-Indonesians. One fears that the current crisis is being used to further the entrepreneurial position of the bumiputra over that of the Sino-Indonesians. To the extent that these are indications of Indonesian policy towards its citizens of Chinese-origin, there are reasons for concern. The pendulum would seem to be swinging towards local solutions for local issues, a trend paralleled by the (re)emergence of Southeast Asian ideas on the appropriate form of economy for the region and how they should be run.
Southeast Asian Economies
At first glance turning to value judgements within a discussion of economics would seem to detract from its ‘scientific’ value. This is misleading. As explicitly pointed by Apichai and implied by Mubyarto and Shamsul, analysis of social and religious norms as motivating forces for economic activity is no less ‘scientific’ than assuming that enlightened self-interest is the foundation for a western-style economy guided by market forces. Even in the latter case religious and social beliefs often take precedence over economic self-interest, as in the case of closing shops on Sundays. The question is not, then, whether one set of social/religious norms is more scientific or logical for providing the basis for the allocation of a society’s scarce resources, but which one is more applicable or desirable within the Southeast Asian context.

More importantly, expressions of what should constitute the basis of a given society’s economy provide clues as to what it will become should a sufficient number of individuals feel the same way. Developments during the past few months would suggest that the type of institutions emerging under the region’s continued economic difficulties tend to be more in line with the oughts than they are with so called ‘free-market’ or other forces acceptable to the IMF. The two are not unrelated. There is a growing frustration with the IMF among both the region’s western-trained economists and its more popularly oriented leaders with their appeals to traditional values. This frustration is rooted in what both groups see as the IMF’s capriciousness in the matter of actual payments, including its meddling in internal affairs and its general inconsistency regarding demand. Most vexing of all, the efforts to comply with the IMF have been in vain! The economic situation has not improved, despite the countries’ attempts to conform to western prescriptions, at considerable national sacrifice. In this situation voices are heard counselling to ‘go it alone’, with Sukarno’s quotable ‘go to Hell with your aid’ very much on the minds of Southeast Asian leaders. Surely, they feel, home-grown solutions could do no worse than the
Southeast Asian-Centred Economies or Economics?

IMF’s efforts, and with considerably less fuss and strain on the national ego.

Here it is worthwhile to recall that enthusiasm for the changeover to liberal market-oriented economic policies in the late 1960s and early 70s was by no means uniform among Southeast Asians. The (albeit vague) concepts of Ekonomi Pancasila, the ‘Benteng’ Programme, self-reliance strategies, and Buddhist Socialism had become and were still popular at the time of their abandonment as mainstream economic policies. Moreover, their anti-‘free-flight-capitalist’ message was supported by large and popular socialist movements ranging from mild Fabian socialism to the sizeable Communist parties of Indonesia, Vietnam, and Thailand. If we consider the strength of these indigenously oriented movements, we must wonder if they were defeated in the 1960s and ’70s by the lure of an economic Disneyland introduced by the respective governments with a good deal of physical coercion. On the contrary, they either transformed themselves into politically acceptable versions of their former selves, or simply went underground. This means that with the crash and resulting disillusionment with the current economic paradigm, models based on these so-called ‘alternative economies’ are likely to re-emerge in order to challenge the discredited western economic strategies.

Given the (perhaps tentatively) successful emergence in Eastern Europe of democracy and market economies after half a century of Communist rule, is it so difficult to believe that Southeast Asian concepts of government and economics could re-emerge after several decades of adopting western economic models? This is not to say that the type of alternative economies presented by the contributions to this volume are solely extensions of the past. Many, especially from Thailand, constitute intensification of the colonial experience by a neocolonial one. The point here is that alternatives to the economic paradigm prevailing until July 1997, whether they represent continuations of older concepts, the embodiment of popular feeling, or new inventions, should be taken seriously. Not to do so would be to grossly underestimate just how deep
the effects of the crash have been. The credibility of the ‘Newly Industrialising Country’ model has been especially hard hit. What we are currently witnessing is the emergence of economic institutions increasingly based on indigenous Southeast Asian economic concepts. Whether this is a passing phenomenon or the beginnings of a truly local economy only time will tell.

Southeast Asian Economics

For the sake of argument let us accept that the current economies of Southeast Asia do not conform to the standard western paradigm. Does this then constitute sufficient grounds for creating some sort of ‘Southeast Asian Economics’? The question deserves consideration; the observations in this volume argue that Southeast Asian economies function in very different ways than those predicted by mainstream economic paradigms. Moreover they are likely to diverge even more strikingly in the foreseeable future. What consequence does this hold for the study of economics? Either:

1. the standard economic paradigm is correct both at the macro and micro levels. In that case, its flawed predictions about what would happen in the region, leading to almost total uncertainty as to the best subsequent strategies to pursue, must stem from incomplete or incorrect data. In this case the remedy lies in increased basic research, including use of local language sources, and more rigorous application of existing methods; or

2. the paradigm is correct at the macro level but not at the micro level. Here the remedy would be almost the same, but with the emphasis on improving theory at the micro level. This alternative seems less tenable because it is at the micro level that western derived observations appear to function best. In both cases, more digging into the source material using western science applied by westerners and western trained Southeast Asians will provide a more accurate picture of Southeast Asian economic realities. This postulate is possible but seems unlikely; alternatively,
Southeast Asian-Centred Economies or Economics?

3. the paradigm is incorrect at both micro and macro levels. This would entail a rejection of the whole science, something akin to throwing the baby out with the bath water. In any case it would take us into methodological issues far afield from the exploration of the realities of Southeast Asia's economic life to which this project is dedicated. Finally, consider the possibility that

4. the standard western paradigm is correct at the micro level but not at the macro level. This would seem to best fit the present state of the art with regard to Southeast Asia, particularly in light of the familiar scientific pitfall of finding evidence exclusively confirming one's theories, not because that's all the evidence there is, but as a result of one's a priori assumptions. In the specific case of Southeast Asia one cannot help but to wonder over the existence of a Foucaultian power/knowledge relationship. Certainly during the period of colonial and neocolonial dominance of western models and capital, knowledge of (acceptable) economics was monolithically Anglo-European (except for the unsuccessful communist challenges). The power inherent in billions of dollars earmarked for a 'bail out', even for countries not directly in the IMF/World Bank emergency rooms, assumes even more weight for the power side of the equation.

At the April meeting in Lund, Southeast Asian versions of knowledge were broached and some observations made on why their contents serve as a useful corrective to prevailing paradigms in economics. Whatever the outcome, the dialogue has at least been opened in preparation for the next round of discussions. Lest one become discouraged by this reinventing the wheel it is comforting to remember that,

A mighty oak springs from a single acorn
A pagoda of seven stories begins at the bottom, and
A journey of a thousand Li begins with a single step.


Mason C. Hoadley: Conclusion

References


The Nordic Institute of Asian Studies (NIAS) is funded by the governments of Denmark, Finland, Iceland, Norway and Sweden via the Nordic Council of Ministers, and works to encourage and support Asian studies in the Nordic countries. In so doing, NIAS has published well in excess of one hundred books in the last three decades.