



**RACING TO THE BOTTOM OR WINNERS ALL ROUND?
SOUTHEAST ASIA'S ECONOMIC DEVELOPMENT IN
THE 1990s**

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Glossary of Terms

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Corporation
ASEAN	Association of Southeast Asian Nations
CPI	Consumer Price Index
EPI	Extended Programme of Immunization
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDI	Gross Domestic Investment
GDP	Gross Domestic Product
HDI	Human Development Index
HPI-1	Human Poverty Index for Developing Countries
IFG	International Forum on Globalization
IMF	International Monetary Fund
LDCs	Least Developed Countries
MNCs	Multinational Corporations
NAFTA	North America Free Trade Agreement
TRIPs	Trade-Related Intellectual Property Rights Agreement

UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNCTAD	United Nations Conference on Trade and Development
WHO	World Health Organization
WTO	World Trade Organization

Abstract

Is Southeast Asia “racing to the bottom” in its march to become industrialised? This thesis examines and compares economic and social development in developing Southeast Asia – Indonesia, Malaysia, Thailand, the Philippines, Cambodia, Lao’s People’s Democratic Republic, Myanmar and Vietnam – focusing on the 1990s, and finds that in absolute terms there is no race. That is, whilst competing for foreign direct investments with other developing economies, economic development has not led to a downward pressure on income levels and nor has it increased poverty. However, despite being modelled on the Northeast Asian (export-oriented) development model, Southeast Asian economic development has been less successful and more varied with the more developed economies of Malaysia, Thailand, Indonesia and the Philippines benefiting most. These successes are due in part their political stability in contrast to the conflict disrupted economies of Cambodia, Lao’s People Democratic Republic, Myanmar and Vietnam. In all of these countries, globalisation, through trade and attracting foreign investments was, and remains, vital to economic development. At the same time, industrial policies have been adopted to protect developing domestic industries from foreign competition. Also, governments’ promotion of basic education and healthcare has contributed to economic development. This results in a more productive and healthy population, and the economic development achieved in turn ensures continued social development. This thesis shows that in the 1990s and at the turn of the new millennium there is evidence of declining poverty, improved healthcare and education facilities, i.e. an improved standard of living. It therefore concludes that there is no race to the bottom in developing Southeast Asia, nor is the economic

model of development adopted by the respective governments based solely on free-market economics (Neoliberalism) or is it purely protectionist (Keynesian); instead it has components of both. Importantly, the progress in developing Southeast Asia over the last 30 years, particularly in the 1990s, refutes anti-globalist claims that globalisation always leads to greater impoverishment in the developing world.

Declaration

This thesis contains no material that has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text of the thesis.

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Chapter One: Introduction

The term Globalisation is commonly defined as a “borderless” world and is often associated with features such as; Multinational Corporations (MNCs), the establishment of the World Trade Organisation (WTO), free movement of goods and services, international trade, and the dominance in world politics by the United States of America (USA). However, globalisation is also a loose term about which there is little real consensus, although it can be summarised as a process that encourages closer trans-border economic, political and social interaction (Islam et al, 1997:10; Mittleman, 2000: 5). Its proponents argue globalisation raises living standards, alleviates poverty and increases wealth, but its critics decry it for just the opposite. Anti-globalisation activists have repeatedly denounced globalisation for its alleged harm including, but are not limited to, inequitable distribution of wealth (such as the widening of the gap between the ‘haves’ and ‘have-nots’); environmental devastation; poverty; human suffering in the developing world; and loss of national sovereignty. More recently, some have argued globalisation has led to increased global insecurity and terrorist activities particularly over the past five years. Is the latter a case of the “have-nots” in the developing world acting out against the industrialised West, especially American interests?

The main focus of this study is not on globalisation *per se*, but on developments in Southeast Asia in the 1990s, and specifically to what critics allege as one of its worst by-products: the ‘race to the bottom’. For commentators such as George (2002), Brecher and Costello (1994 and 1998), this race occurs when governments of poor and least developed countries (LDCs) compete for foreign

investments by lowering possible operating costs and restrictions. With abundant cheap labour as their chief asset, and in some cases, natural resources as well, these governments compete to provide prospective investors with the lowest taxes and least burdensome health, labour and environmental standards (Tonelson, 2002). These commentators' argument for a race to the bottom is only true if foreign investment is assumed to favour an investment environment based on low wages and minimal environmental standards. The ultimate losers of this race are said to be the ordinary people and the environment¹. A race to the bottom then, results in increased misery for the general population; i.e. lowers disposable income, undermines livelihoods and living conditions. As people's conditions deteriorate it can mean fewer children enrolled in schools, declining literacy rates, and an increase in poverty.

Commentators such as George, Brecher and Costello, along with international agencies such as the United Nations Development Programme (UNDP) claim that such a race has indeed occurred in some Southeast Asian nations. Moreover, the Asian financial crisis of 1997 allegedly worsened this phenomenon (Brecher et al., 1998: xix). The crisis, though put in perspective is only a single event; the question is what are the long-term implications of inter country competition for investment? Has it led to greater deprivation and deterioration in the years following the crisis? Surely it would have if Southeast Asian governments were desperate to rebuild their economies. This thesis assesses whether there was in fact such a 'race to the bottom' (in absolute terms) both prior to and after the financial crisis of 1997, or whether three decades of economic growth and development resulting from increasing integration to the global economic system has instead led to a rise in overall standards of living. The latter would vindicate the proponents of free trade and globalisation – the neoliberals – and negate the arguments of the critics, or vice versa.

¹ While environmental degradation such as pollution and deforestation is a problem in developing Asia, the scope of this thesis will only focus on three areas in relation to the race to the bottom: poverty, education and health.

The significance of this thesis lies in its analysis. Existing studies of globalisation fall into two main schools: supporters of neoliberalism and its globalisation critics. The neoliberal approach argues that better standards of living are achieved through economic growth fed by globalisation. Development though, can be measured economic indicators, such as Gross Domestic Product (GDP), Foreign Direct Investments (FDI), trade and other economic indicator. Neoliberal theory (also sometimes known as economic rationalism, Reaganomics and Thatcherism) was chosen for this thesis because it has subsumed Keynesian economics to become the dominant economic doctrine. Since Ronald Reagan's Presidential terms (1981-8) and Margaret Thatcher's Prime Ministership (1979-90), in particular, it has become popular to limit government roles in running economies, promoting market forces and competition to ensure allocative (economic) efficiency. Promoting globalisation and maximising comparative advantage by encouraging foreign investment and reducing trade barriers is a corollary of this approach. Since the Asian financial crisis, however, it has become increasingly apparent that neoliberalism is not without its own weaknesses. For instance, it largely fails to directly address human development issues, such as growing poverty and inequality between the rich and poor nations. In addition, its advocacy for liberalisation, particularly in the financial capital markets, has led some to believe that it was a major cause of the crisis. Liberalisation were deemed as unnecessary and premature, as the appropriate regulatory infrastructure needed to prevent such catastrophe were not yet fully developed (Stiglitz, 2000).

Many critics of neoliberal globalisation argue that the benefits of economic development do not always, or even rarely, equate with better living standards for all but are rather distributed inequitably. These critics often use statistics in a relative manner to support their arguments. For example, they often argue that relative to the rich, the poor are becoming poorer, thus widening the gap between the affluent (haves) and the poor (have-nots), resulting in declining living standards for many. While the neoliberal approach tends to ignore the distribution of benefits, the relativists ignore

absolute improvements. Thus, the key questions are: whether the poorer sections of society are in fact generally better off? Has their purchasing power improved? Have their standards of living improved? For example, do the poor directly gain greater access to basic facilities, such as improved sanitation, education and healthcare from economic growth? The significance of this thesis is that it uses readily available empirical data to examine the 'human face' of the two dominant views on globalisation in relation to Southeast Asia and compares the two competing claims in a rigorous and holistic way.

1.1 Methodology

This empirical investigation into the existence or otherwise of a race to the bottom in Southeast Asia consists of two parts. The first part is a literature review chapter on the two dominant perspectives, the neoliberals and their critics on the impacts of globalisation in general and for developing countries of Southeast Asia in particular. The neoliberal view focuses on the centrality of a market economy governed predominantly by market forces and market equilibrium as the means for distributing goods and services. At the heart of this ideology is a system of 'user-pays' where government intervention is generally viewed as disruptive to efficiency (Cline, 2002). Globalisation is seen as essential for the economic development necessary to raise living standards. In contrast, critics allege globalisation has caused mass inequalities worldwide, illustrated, for example, by the current disparity in world income distribution where fifteen percent of world population receives approximately eighty percent of the world's income (Chossudovsky, 1998: 38). They see neoliberal economics undermining social development and as detrimental to the natural environment. Unlike neoliberals, they do not believe foreign investments and export-oriented economic development and economic growth will necessarily lead to human development. To reconcile these views, the second part of the analysis will involve examining a combination of economic and social development indicators. Both elements of analysis will then be utilised concurrently in a comparative manner.

This comparison of economic and social development indicators should ascertain the true nature of social progress or regress in relation to economic achievements in these economies. The former provides a macro view of economic performance by measuring economic indicators such as the GDP and level of FDI but largely ignores human development. The use of social development indicators should provide a more accurate human perspective because these indicators measure the development of human capital. The comparison will reveal whether, in absolute terms, living standards have improved in Southeast Asia during the 1990s or whether a race to the bottom does indeed exist: the existence of the race and rising living standards are clearly mutually exclusive. This thesis focuses on the 1990s and early 2000s as the period chosen for investigation because for these countries of Southeast Asia, the process of industrialisation undergone had at least been a period 15 years, and they are also becoming increasingly integrated into the global economy. Having experienced economic development, social progress in relation to economic development becomes easier to assess.

The existence of a race to the bottom will become apparent when the social development indicators are either poor or negative in relation to positive economic growth. Poor performance demonstrated by declines in social development indicators reflects inadequate investment in human resources. Regressing standards of social development coupled with positive economic indicators would support the anti-globalists' criticism of that the poor in particular are often left out. On the other hand, if a race to the bottom does not exist, economic growth will be reflected in improvements of the human development indicators, i.e. enhanced general living standards for all. For example, if a developing country has been averaging 10 percent GDP growth annually over a period of ten years with inflation of between 5-7 percent and if this country also experienced improvements in such areas as poverty reduction, education and healthcare, among other indicators, *then* social development and improved living standards have been achieved and it can be safely assumed the

race to the bottom does not exist. Conversely, if during this period the same social development indicators performed poorly or went backwards, and little or no human capital has been attained, this would strongly indicate the existence of at least some elements of a race to the bottom.

1.1.1 Southeast Asia

This study focuses on eight developing economies of Southeast Asia: Malaysia, Indonesia, Vietnam, Cambodia, Philippines, Myanmar, Thailand, and Lao's Peoples Democratic Republic, all of which are at varying stages of development². Undeniable vitality has led to rapid economic development, transforming entire economic and social development sceneries. In the space of thirty years, Southeast Asia has been transformed from one of the poorest regions in the world, to being one of the most economically dynamic and successful regions (Rigg, 1997: 4). Along with economic success, increases in incomes and significant reductions in poverty were also experienced (Stiglitz, 2002: 91). Thus, the developments of the preceding three decades are often – and rightly so – described as remarkable, if not miraculous.

Neoliberals claim that the rapid development of these Southeast Asian economies prior to the 1997 financial crisis was achieved through their active participation in the global market economy and by the adoption of neoliberal policies, such as trade and financial liberalisation. Consistent with neoliberal theory that economic development leads to a rise in standards of living; high economic growth periods would have ensured progress was made in Southeast Asia's social development – but did it?

² Singapore has been left out of the analysis due to firstly Singapore being a developed economy and secondly a city-state rather than an economy that is industrialising in the traditional sense (agriculture to industry). The primary reason for leaving out Brunei is the size of its economy. Not only is the Brunei economy considered small, its primary source of exports are crude oil and natural gas. Unlike the other Southeast Asian economies examined, Brunei does not have a significant agriculture and/or manufacturer sector.

On the other hand, critics of neoliberalism – particularly those from a developmental perspective – argue that although Southeast Asia participated in the market economy, its rise to economic dominance was carefully planned (Sen, 1999: 7) through lessons learnt from neighbouring economies of Northeast Asia: Japan, South Korea and Taiwan (Brecher et al., 1994: 74). Concurring with Sen and Brecher et al., Stiglitz adds that a combination of high savings rates, government investment in education, and state-directed industrial policy were the primary factors behind economic success (2002: 92). This type of ‘institutional complementarity’ between economic development and governments, according to Amartya Sen, is unique to Northeast and Southeast Asian development (1999:6), and through it, human development was subsequently made possible alongside economic development. Emphasis was placed on education, healthcare and training – all considered vital for human capital. Hence, in Northeast and Southeast Asia, human and economic development were pursued concurrently and were mutually beneficial. That is, with a healthy and educated population, an economy becomes more productive. There are also fewer burdens on the healthcare system. In return, economic development can provide (or generate) more returns to further enhance health and education standards. For the individual, human development creates freedoms that allow people to help each other, to enhance social opportunities and ultimately to increase access to other opportunities and a better quality of life (Sen, 1999: 7, 9).

Apart from the region's dynamism and diversity, the onset and recovery from the financial crisis of 1997 make it a significant area of study. When the crisis broke out, the IMF criticised the institutions of many Asian nations as rotten and their governments corrupt, factors that contributed to the economic meltdown. The financial crisis, as it was widely reported, halted economic development and led to hyperinflationary pressures while a free fall in the value of Asian currencies resulted in widespread deprivation (Jackson et al., 1998: 10:29). Yet despite all this, Southeast Asia, according

to *Foreign Policy* magazine's 2003 A.T Kearney/Foreign Policy Globalisation Index³, remained the most economically integrated region in the world. Singapore and Malaysia were also ranked among the top 10 most economically integrated nations of the 62 countries surveyed (*Foreign Policy* Jan/Feb 2003). Moreover, if rotten institutions and corrupt governments were to be blamed for the financial crisis, one must ask why then did these institutions and governments do so well for so long? Why then has it only been since financial deregulation and the massive influx (then outflow) of short-term capital that had led Asia to a crisis after 30 years of sustained growth? A few economists such as Jeffrey Sachs and Joseph Stiglitz, during the process of "encouraged" financial market liberalisation prior to the crisis, questioned its efficacy and in fact cautioned against rapid deregulation. It is therefore useful to analyse the extent to which the crisis affected human development in Southeast Asia and to what extent it influenced the probability of a race to the bottom? If anything, have the efforts to recover quickly from the crisis put greater pressure on countries leading to a race to the bottom? Moreover, rising competition with China might also have led the countries of Southeast Asia to lower their standards.

1.1.2 Economic Indicators

The economic indicators presented in this analysis are the commonly used measures of national economic well-being: Gross Domestic Product (GDP), Unemployment, Inflation, Trade Balance, Current Account, Gross Domestic Investment (GDI) and Foreign Direct Investment (FDI).

1.1.2.1 Gross Domestic Product

Economic growth is widely accepted as an important societal goal and the most common measure of it is Gross Domestic Product. Defined as 'the total market value of all final goods and services in the economy during a specific period' (Jackson et al. 1998, 9:3), a rise in GDP is considered by many

³ A.T Kearney/FOREIGN POLICY Globalization Index measures a country's global links, from foreign direct investment to international travel and Internet servers.

economists as the key indicator underlying improvements in living standards. Economic growth increases the output of final goods and services relative to the country's population, providing governments with an economy more able to meet new needs and alleviate human vulnerability at both international and domestic levels. For example, rising GDP increases the availability and security of jobs and, to a degree, alleviates poverty (Bentick, 1996: 70 & Jackson et al., 1998: 20:3). Therefore, it can be said that economic growth 'lessens the burden of scarcity' (Jackson et al., 1998: 20:3).

1.1.2.2 Inflation

Inflation is not caused by rising prices *per se* but can be defined as a general price rise (Jackson et al., 1998: 10:14 & Bentick 1996, 195). Possible causes of inflation include increases in wages; increases in raw materials prices; increases in government expenditure; and/or increases in money supply (Bentick, 1996: 195). The rate of inflation of any given year – usually presented as a percentage monthly, quarterly or annually – is calculated by taking the difference between the price indexes, the consumer price index (CPI)⁴, of that year and the previous year, dividing then by the price index of the previous year, and multiplying by one hundred to calculate it as percentile. (Jackson et al. 1998, 10:14-5). Inflation at a low level is usually necessary if an economy is to realise high levels of output and employment. Yet high levels of inflation may well result in declines in real output and employment. Thus, inflation is generally only valuable to human capital when kept low (Jackson et al., 1998: 10:26).

1.1.2.3 Unemployment Rate

In order to define the 'unemployment rate' it is important to understand the meaning of *employment* in economic terms. 'Full employment', also known as the 'natural rate of unemployment', does not

⁴ Consumer Price Index (CPI) – often used to calculate a country's rate of inflation – measures the price level of a 'market basket' of a variety of goods and services that are purchased by an average household. (Jackson et al. 1998, 9:16)

simply mean that every person in society is employed. Rather, full employment is achieved when the labour market is balanced, that is, the number of job seekers equals the number of job vacancies. A person who is unemployed is someone who is actively seeking employment in the labour market. From this we see that the rate of unemployment is the number of unemployed persons seeking work in the total labour force as a percentage of population (Jackson et al., 1998: 10:7-10). With employment being necessary to earn money to buy goods and services, employment rates indicate access to life's necessities in the first instance and to luxuries later.

1.1.2.4 Trade Balance

Since the end of the Second World War, trade has been a vital part to the rebuilding of, first much of Northeast, and more recently Southeast Asia. The outward-export oriented policies are partly responsible for Japan's rapid rise to prominence in global economics prior to its decline in the mid 1990s. Many countries in the region have since followed Japan's lead, firstly the newly industrialised economies (NIEs) of South Korea, Taiwan, Hong Kong and Singapore, secondly Malaysia, Thailand Indonesia and the Philippines and more recently the lesser developed economies, particularly of Vietnam and Cambodia. These countries are, or have become, increasingly open and integrated into the world economy, and experienced significant growth and development as a result of international trade. Trade balances have become crucial indicators of economic health: an ideal trade balance is when merchandise exports exceed merchandise imports (also known as a trade surplus). Just as important, however, is the growth in value of both merchandise exports and imports as indications of increased activity or value of trade of an expanding economy.

1.1.2.5 Current Account Balance

The balance of current accounts is defined as, 'the sum of the balance of goods and services, net income and net unrequited transfers' (Jackson et al., 1998). When viewed alone without taking into

account economic growth, a current account deficit is seen as bad for the economy. Like trade, it refers to national spending or consumption of goods and services that is greater than the income generated by the economy; a current account surplus is thus more favourable than a deficit. This rule generally holds true when economic growth rates are not taken into account in assessing the current account. However, when there are high rates of economic growth, a current account deficit is not always considered as unfavourable according to Appleyard et al (1998: 411-2). It is instead perceived as 'safe' and is part transition aspect of a country's (particularly a developing country's) economic development. Determining whether deficits are bad for the economy depends on factors such as the stage of development, the level of investments and how such investment capital is utilised to aid development, the net capital account, the rate of savings and the level of consumption of goods and services etc (The Economist, 1995: 68-9).

1.1.2.6 Gross Domestic Investment

Defined as the "sum of gross fixed capital formation plus changes in inventories", Gross Domestic Investment (GDI) is measured as the total value of a producer's acquisitions, less the disposal of assets in a given accounting period (Asian Development Outlook, 2004). Essentially, GDI measures the abilities of domestic producers to acquire assets, including non-produced (i.e. non-manufactured) ones. This acquisition is seen as beneficial for long-term and sustainable economic development. It is also a possible indicator of increasing domestic wealth. In the short-term, GDI helps fuel economic growth as it makes up a significant percentage of GDP. What is also apparent among the more developed Southeast Asian economies, primarily Malaysia and Thailand, is that GDI was often higher when economic growth was high.

1.1.2.7 Foreign Direct Investment

Foreign Direct Investment, a key aspect of globalisation, reflects the lasting interest of a resident entity in one economy (direct investor) in a resident entity in another economy (direct investment enterprise) covering all transactions between direct investors and direct investment enterprises and their affiliated enterprises – incorporated and unincorporated (Duce and de España 2003: 2). Romer (1993 in Carkovic et al., 2002:1) suggests that a high level of FDI can produce externalities such as technology transfers and spillovers. These effects allow developing countries to gain technological and business know-how to ignite economic growth and enhance their economic activities. The issue is how equitably these externalities are distributed. Do subsequent economic activities ignited by FDI lead to higher living standards? What is the cost to the people of countries that have successfully attracted FDI by competing on the basis of reduced wages? While increased FDI gained by countries – particular those who compete on reduced wages and sub-standard regulations – may be beneficial to its overall economic development, its implications for human development may include an overall lower standard of living which can be assessed using social development indicators.

1.1.3 Social Development Indicators

Measuring social development encompasses a wide range of areas including income distribution, the state of the environment and population migration. However, for the purpose of this study, only three of the most important indicators will be used to track developing Southeast Asia's progress in the 1990s and early 2000s: a decent standard of living measured as poverty, education and health infrastructure levels. These three components are also considered key elements of human development by the United Nations Development Programme (UNDP) and form the basis of the composite index, the Human Development Index (HDI). The HDI provides an overall or a macro-understanding of social progress in the eight countries, while the three components to be examined individually will give an in-depth understanding of how overall social development is distributed, that

is, did progress occur because of direct improvements in education or health or is it indirectly due to significant poverty alleviation?

1.1.3.1 Poverty

Although advances in poverty alleviation have been made over the past few decades, poverty remains one of the world's greatest challenges. In 1998, the Asia-Pacific region alone harboured two thirds of the world's poor⁵. Despite experiencing phenomenal economic growth over the three decades prior to the financial crisis, poverty remains prevalent in parts of East and Southeast Asia, but lower than other parts of Asia, including South Asia and parts of inner Asia such as Mongolia (Kokko et al., 2001: 28-29).

Defined as "a condition in which people lack what they need to live in a general sense", poverty is a multi-dimensional problem. In absolute terms it focuses on the lack of necessities physically required for survival and examines at what point people become poor. However, it also depends on how much the poor have, or do not have, relative to others in their society as well as their definition of a "good life" (Johnson 2000: 233). The key to alleviating poverty, which often leaves the poor both vulnerable and powerless, is through the reinforcement of other developments – particularly in the areas of healthcare, education and the environment (Kokko, 2001: 28). Similarly, Nobel Laureate economist Amartya Sen believes addressing these developmental issues, particularly education and health, enhances the poor's capability to move and remain away from poverty (1981). Addressing poverty is therefore an important component of human development. Among the measures used here to examine poverty in Southeast Asia are two key indicators: the Human Poverty Index for developing countries (HPI-1), and income-based poverty measured as absolute and moderate poverty (or percentage of population living below one and two US dollars a day respectively). The methodologies of the two poverty measures are very different. The first measures poverty as a

⁵ Defined by the World Bank as those living on less than 1 US dollar a day

deprivation of capability, a new perspective to poverty introduced by Amartya Sen and adopted by the UNDP. The UNDP defined poverty as deprivation to three key elements to human life: a decent standard of living, knowledge and health. The second method measures poverty as an income deprivation. Used together, these two indicators will give clear idea of the state of poverty, or of poverty alleviation, in Southeast Asia.

1.1.2.2 Education

One of the most important aspects of human development is education. Today, education is considered as a precondition of development – economic and particularly human development. Education improves the ability to access information ultimately improving one's earning power. In contrast, lack of education results in exclusion from vital information. Without education, communities are less able to improve their living standards, and with little or no knowledge and out-dated techniques they would be unable to grow.

Amid the current economic climate, where the neoliberal approach to development has been widely adopted, education is viewed as vital in ensuring/enhancing competitiveness in the global market. Yet, in the same global "users-pay" market, access to education can be diminished or be beyond the reach of those in low socioeconomic groups. The irony of this economic model is that while development requires access to some of the basic infrastructures, such as public schools and social institutions, these infrastructures are often, according to critics of the neoliberal approach to development, to be out of the reach of those who need it most – the poor (Kokko et al, 2001: 34). This poses the question of how we expect human development for the marginalised groups in society to be achieved when they clearly cannot afford to pay.

The indicators used to investigate the state of education are youth and adult literacy rates, rate of primary and secondary enrolment, the percentage of population reaching grade five, and the gender ratios in relation to enrolment ratios and completion of grade four. Increases in access will indicate human or social development while declines may be an indication of a race to the bottom.

1.1.2.3 Health Infrastructure

Although recent decades have witnessed significant advances in technology and medicine in many countries, inadequate healthcare infrastructure remains a major factor behind deaths from preventable and treatable illnesses in many developing nations. While affluent developed nations benefit from such advances, poorer nations, particularly LDCs, due to inequitable access to decent healthcare infrastructure pay with mortality (ILO, 2000). Therefore, measuring infant and child mortality rates⁶, rate of life expectancy⁷, access to essential drugs such as vaccines against preventable diseases for infants and pregnant women, and access to sanitation and clean drinking water will provide an insight to the state of national health standards. Where there is inadequate healthcare infrastructure, it is expected that there would be higher mortality rates and lower life expectancy.

This thesis aims to put to rest some of the arguments about globalisation raised by both neoliberals and their critics using Southeast Asia as the case study. The following chapters are detailed investigations of whether a race to the bottom exists or whether over a period of more than ten years, absolute improvements in standards of living have occurred instead. Chapter two

⁶ Infant mortality and child mortality refer to the deaths of children under one year of age and the deaths of children under five years of age respectively. Infant mortality is generally calculated as the number of infant deaths per 1000 live births in a given year. Child mortality rate is generally calculated as the probability (expressed as a rate per 1000 live births) of a child dying before the age of five if subject to the current age-specific mortality rates.
(<http://millenniumindicators.un.org/unsd/mdg/Resources/Attach/Indicators/HandbookEnglish.pdf>)

⁷ Life expectancy is the average number of years a newborn (Age 0) is expected to live if current mortality rates continue to apply (<http://www.who.int/whosis/whostat2006LifeExpectancyAtBirth.pdf>)

contextualises the thesis by examining existing literature on the two opposing views. Chapters three and four use various existing economic and social development indicators to empirically examine the level of development of the eight developing Southeast Asian nations. Chapter five utilises the results of the preceding chapters to discuss, compare and conclude on the presence and prevalence of a 'race to the bottom' in the region. If health and well-being, poverty and education standards improved alongside economic development and the increasing levels of FDIs, then there is no race. This is because economic development in many Southeast Asian nations is dependent on FDIs and if these countries compete for the same FDIs, there should be a race. However, if poverty increased or experienced no change and there is no improvement in health and education, then there are bases to believe that a race to the bottom exists.

Chapter Two: Neoliberalism, Its Critics and Development in Southeast Asia – A Literature Review

In order to fully understand the scope of this study, we need to understand the two predominant ideological arguments regarding globalisation and development, i.e. the neoliberal ideology and those of its opponents. Neoliberal ideologists are predominantly neoclassical economists. In contrast, their critics come from a wide range of backgrounds including non-governmental organisations (NGOs) such as those under the umbrella organisation 'Article Premier' – Amnesty International, Doctors of the World and Action against Hunger – anti-globalisation movements, labour unions, scholars from the development studies area, labour studies, and welfare economic theorists such as Robert Wade⁸, Susan George⁹, Jeremy Brecher, Tim Costello, Alan Tonelson¹⁰ and Amartya Sen¹¹. Both theories present sound arguments regarding globalisation from contrasting points of view and the implications of both are relevant here. However, there is significant unexplored territory between the theories promoted by neoliberals and those promoted by globalisation critic. This unexplored territory creates the gap that this research intends to address.

⁸ Professor of Political Economy and Development Studies at Development Studies Institute (DESTIN), London School of Economics.

⁹ Director of Transnational Institute. Vice president of ATTAC France (Association for Taxation of Financial Transaction to Aid Citizens)

¹⁰ Research Fellow at the US Business and Industry Educational Foundation.

¹¹ Professor and Nobel Laureate (1998) for Economics. Renown for his work on welfare economics.

2.1 Neoliberalism

Owing its origins from *Liberalism*, Neoliberalism emerged as a dominant economic ideologue in the 1980s. It focuses on the centrality of a market economy, governed predominantly by market forces and market equilibrium as the means for distributing goods and services. It is a term often used interchangeably with globalisation. At the heart of this ideology is a system of 'user-pays' where government intervention is generally viewed as disruptive to efficiency (Cline, 2002) and where the general characteristic is to increase the number, frequency, repeatability, and formalisation of transactions in order to intensify and expand the market, i.e. the ultimate goal of neoliberals is to see a world where all actions are market transactions (Treanor, 2003).

2.2 Proponents of Neoliberal Ideology

Comprised largely of supranational institutions such as the World Bank, World Trade Organisation and the International Monetary Fund, conservative governments (such as John Howard's Australian Liberal/National party coalition government, and the past governments of Margaret Thatcher and Ronald Reagan in Great Britain and United States of America respectively), large multinational corporations (MNCs), neoclassical economists and free trade advocates and proponents of neoliberal ideology all identify globalisation as an essential ingredient for economic development and economic development as fundamental to raising living standards. They believe that market forces are most efficient in generating monetary wealth and therefore living standards. Where the wealth and benefits of such economic activities are not attained directly, they will be gained indirectly through the 'trickle-down effect'¹² (Held et al., 1999: 4). This trickle down will ultimately lead to a higher standard of living and therefore the notion of a 'race to the bottom' is a myth. Tomas Larsson (2002) extends this premise in his book *The Race to the Top: The Real Story of Globalisation*.

¹² The 'trickle-down effect' refers to the "economic theory that financial benefits accorded to big businesses and wealthy investors will pass down to profit smaller businesses and consumers".

Drawing on personal experiences from living and working as a journalist in Asia, he views globalisation – as the title suggests – as a ‘race to the top’. He regards neoliberal policies associated with globalisation and an open world economy as beneficial and empowering, even at the grass root level. Globalisation, Larsson and others believe, opens up markets and enables all players to compete on a level playing field while encouraging greater interaction among nation-states.

In chapter one of *Market Unbound: Unleashing Global Capitalism*, entitled ‘Global Capital Revolution’, Bryan et al. further extend the globalisation debate to argue for the inevitability of global markets and thus the need for national policies that reflect this reality (1996: 2). Embracing such markets, they argue, results in rapid economic growth and prosperity for developed and developing nations alike. This is either through innovation from the former or through transfers of best practice techniques and technologies from the former to the latter. Opposing global capitalism, on the other hand, may well have destructive consequences if it pushes governments beyond their debt capacity (Bryan et al., 1996: 6).

Charles W.L. Hill, a professor of International Business at the University of Washington, concurring with Bryan et al., believes that a market economy with minimal government involvement creates an economic environment that is friendly to international business. He argues against intervention, referring to protection measures (for example the use of tariffs and subsidies to protect or bolster domestic industries during times of economic uncertainty) as ‘beggar-thy-neighbour’ policies. From this ‘forced’ diminishing access to a particular market, the trading partners and neighbouring countries are often adversely affected by such measures. As a result, they may retaliate by inciting a trade war (2001: 163). On the other hand, advocating for trade and financial liberalisation, Hill asserts reducing barriers to trade and investment stimulates business activities worldwide, including foreign investment, leaving consumer products cheaper (through free trade and the theory of

comparative advantage) and raising income. The current trend of trade and financial liberalisation, Hill believes, has done precisely this (2001: 22-3). This is true in the case of trade liberalisation where a more flexible and open trading system in Northeast and most of Southeast Asia increased trade and investment activities, ultimately contributing to economic growth and development.

Neoliberals, according to Held et al. (1999: 4), also counter their critics' contention that much of the wealth created through market-based economic activities is not equitably distributed but remains largely in the hands of affluent minorities by using classical economic theories. These theories include that of Adam Smith's (regarded by economists today as the father of modern economics) on free trade, competition and choice¹³, and his 'the invisible hand'¹⁴ theory, as well as David Ricardo's theory of comparative advantage¹⁵. Neoliberals propose that the adoption of neoliberal policies project long-term gains beneficial to everyone, directly and indirectly.

However, while proponents of neoliberalism, such as Bryan and Farrell, argue the strengths of globalisation, the weaknesses of neoliberal ideology are equally undeniable. Neoliberal ideology is based largely on more abstract economic theories that tend to lack human element. Where it effectively measures economic development, neoliberal theory often fails to take into account social development, that is, human capital. As mentioned earlier, neoliberals see that economic development and economic growth lead to improvements in living standards and alleviation of poverty. Any failures during implementation of neoliberal policies – economic (e.g. financial crisis) or social (e.g. pervasive poverty) – they attribute to inefficient markets and bad governance. As

¹³ Adam Smith, in *The Wealth of Nations*, introduced principles of free trade, competition, and choice. He proposed that these principles drive economic development, reduce poverty, and precipitate the social and moral improvement of humankind.

¹⁴ Smith contends in *The Wealth of Nations* that the individual through promoting his/her private interests unintentionally promotes the public and social interest – that is he/she is guided by 'the invisible hand'.

¹⁵ The theory of comparative advantage asserts that 'nations should specialise in the production of goods and services in which they have a comparative advantage, allowing an increase in consumption possibilities through trade and specialisation.' (Jackson et al., (1998: 34:9)

explained by Bryan and Farrell (1996: 8), they perceive national governments as the main culprit behind distorting 'allocative efficiency' of the market. However, in reality neoliberal ideology fails to explain adequately why a significant proportion of world population continues to live in impoverished circumstances while the wealth of a few grows even bigger. It fails to explain why at the beginning of the new millennium, of the 4.6 billion people living in the developing world, 1.2 billion people live on less than USD¹⁶ a day and 2.8 billion people continue to live on less than USD2 a day. It fails to explain why almost a quarter (1 billion) of these 4.6 billion people lack access to an adequate water supply and why 2.4 billion of these people lack access to basic sanitation (HDR, 2001: 9).

2.3 Critics of Neoliberal Ideology

Critics of present day globalisation disagree with neoliberals in that they generally do not believe economic development and economic growth always leads to social development. They assert that the 'trickle-down effect' is a fallacy and that many fail to benefit from international trade based economic growth and development, in fact, they believe many people are instead worse off. The same observation was also noted by the United Nations Development Programme (UNDP) in its 2001 Human Development Report (HDR) which used analysed Costa Rica *vis-à-vis* South Korea. Despite experiencing different levels of economic growth and development over the last thirty years, both nations achieved the same level of human and socioeconomic development by 2001 – reflected by the Human Development Index¹⁷ score of 0.800. According to neoliberal theory, South Korea's superior economic growth should, or the face of it, have led to greater improvements. Costa Rica's relatively weaker economy, though, nevertheless achieved progress at the same level, while spending half the income South Korea did (HDR, 2001:31). Does this, therefore, indicate that human

¹⁶ Abbreviation of the US currency – US Dollar

¹⁷ Human Development Index measures overall achievements in a country in three basic dimensions of human development – longevity, knowledge and a decent standard of living (HDR, 2001: 14). It rates countries in their level of Human Development by rating them between 0 and 1 – 0 meaning no progress has been made in human development and 1 means high level of human development.

development relies more on how income and wealth generated are allocated and managed than how much was generated?

Chossudovsky, like many critics, contends globalisation has created mass inequalities worldwide. To illustrate this, he used the disparity in world income distribution where fifteen percent of world population receive approximately eighty percent of the world's income (1998: 38). According to Susan George, depending on which end of the rich versus poor scale one falls on, you will either gain or lose (1999), i.e. the richer you are, the more you will gain, and the poorer you stand to gain less, or even lose out. Most alarming for the critics is the statistic of the combined income of the world's 475 billionaires in 2002 totalling the combined income of the bottom half of humanity (International Forum of Globalisation¹⁸ [IFG], 2002: 30).

Susan George citing Karl Polanyi's¹⁹ *The Great Transformation in 1944* also contends that:

"To allow market mechanism to be sole director of the fate of human beings and their natural environment... would result in the demolition of the fate of human beings"
(Polanyi 1944: 73 cited in George, 1999)

neoliberalism (or neoliberal globalisation) has eroded democracy and the social fabric of society with its agenda to deregulate and privatise. It shifted much of the economic, and some political, decision-making processes from individual, communities and Nation-States (many of which were democratic) to undemocratic, unaccountable institutions such as the WTO, the IMF and World Bank. Through privatisation of the public sector, there has been loss of significant number of jobs and the increased competition only benefited a few on the top of the food chain. Those at the bottom either drop out of society or are forced to compete by compromising their living standards. This is because both privatisation and competition only fuels the expansion of inequality. George gives the example of the privatisation of public utilities such as water and electricity. Once privatised, profits which she claims

¹⁸ The International Forum on Globalization is an alliance of sixty leading activists, scholars, economists, researchers and writers formed to stimulate new thinking, joint activity, and public education in response to economic globalization

¹⁹ Karl Polanyi was a fierce critique of the 19th century industrial, market-based society.

were normally distributed equitably back into the economy to benefit all, are now in the hands of a select few, i.e. owners or shareholders (George, 1999).

George's dislike of neoliberalism and globalisation is further illustrated by her assertion that the rise or triumph of neoliberalism has less to do with the proven success of its core principles (because she believes there is none) but rather the early neoliberals' understanding of the power to lobby and to organise, and of the importance to network and market their ideas. She believed they were extremely successful at creating networks of foundations, institutes, research centres, publications, scholars, writers and public relations people to relentlessly develop, package and push their agenda. Hence, from a small insignificant "sect" (as George calls it), neoliberalism, in a time dominated by Keynesian economic policies:

... has become the major world religion with its dogmatic doctrine, its priesthood, its law-giving institutions and perhaps most important of all, its hell for heathen and sinners who dare contest the revealed truth...

and:

No matter how many disasters of all kinds the neoliberal system has visibly created, no matter what financial crisis it may engender, no matter how many losers and outcasts it may create, it is still made to seem evitable, like an act of God, the only possible economic and social order available to us.

(George, 1999)

Other critics, while less extreme, also view neoliberal economics as disruptive to human/social development, and detrimental to the natural environment. Amartya Sen (2001), while crediting neoliberal ideology that economic growth is effective in alleviating poverty by the generation of wealth, argues that the relationship between economic growth and the removal of human suffering is not a simple or direct one. Giving even less credit, the International Forum on Globalisation (IFG) also acknowledges instances of neoliberal successes, albeit short-lived. Whatever benefits gained, the key beneficiaries, they see, are elites and top executives of major global corporations (IFG, 2002:

30). Sen argues that unless the wealth generated is redirected to finance public infrastructures, and distributed equitably, poverty is expected to remain pervasive. Like Sen, Joseph Stiglitz²⁰ (2002) acknowledges the benefits of globalisation and the way it has connected the world, particularly the 'South' with the 'North', but like Sen, Stiglitz also acknowledges the need for government intervention as an allocative institution. Jeremy Brecher and Tim Costello also concur, while disputing the neoliberal position that a global free market actually supports economic growth, they argue that in fact during the era of "regulated capitalism" (1948-1973) economic growth was higher compared to the era of deregulation, i.e. 5 percent per year between 1948 and 1973 compared to an average of 2.5 percent the following fifteen years. Economic growth was even slower after 1989 (1994: 72). Free trade, they argue will open the gate to the race to the bottom as:

It dismantles the non-market structures that could counter the downward spiral [i.e. the race to the bottom]. It countermands efforts to correct the polarization of rich and poor. It sanctifies the erosion of democratic governance. It argues for multifaceted "freedom" for global corporations. It legitimises unaccountable global institutions like the IMF, World Bank and [WTO] as merely vehicles for enforcing "free trade" (1994: 71).

The president of the World Economic Forum (WEF), Klaus Schwab and the then managing director, Claud Smadja believe globalisation causes 'severe economic dislocations and social instability' (International Herald Tribune 1/2/1996 in Korten, 1998: 2). Stiglitz envisage environmental devastation, political corruption and severe unemployment. In many poorer countries, these effects have been followed by long-term problems of social dissolution such as the recent urban violence experienced in Latin America and ethnic conflicts in Indonesia (2002: 8). More recently, the events of 11th September and the Bali bombings have also been linked to globalisation by the anti-globalisation movement. They see vindication, claiming global integration of economics has widened the gap between the 'haves' and the 'have-nots' and thus created a sense of resentment that exploded in the destruction of any icons of western capitalism (AT Kearney/Foreign Policy, 2003:

²⁰ Professor of Economics, served as the Chairman of Clinton's Council Economic Advisers (1993-97), World Bank Vice President and Chief Economist (1997-2000) and 2001 Nobel Prize Winner for Economics.

60). Interestingly, this was a view shared and published (observed by the IFG) by the United State's Central Intelligence Agency (CIA) prior to the attacks in 2000 in their *Global Trends 2015* report.

Globalisation, according to the CIA will create:

...an even wider gap between regional winners and losers than exists today. [Globalisation's] evolution will be rocky, marked by chronic volatility and a widening economic divide... deepening economic stagnation, political instability, and cultural alienation. [It] will foster political, ethnic, ideological, and religious extremism, along with the violence that often accompanies it." (2000 cited in IFG, 2002: 30)

Put succinctly by Brecher and Costello, globalisation:

...promotes an uncontrolled economy which provokes its victims to see extremist nationalism as the only alternative (1994: 71).

The IFG in their published 2002 report/book *Alternatives to Economic Globalisation: A Better World is Possible* takes it further and posits that the interpretations of neo-classical economic theories by neoliberals, particularly those of Adam Smith and David Ricardo, are incorrect. Smith's theories, for example, never spoke for the massive multinationals of today. Instead he had an explicit preference for small locally own enterprises. Ricardo's comparative advantage only spoke for the movement or trade of goods or commodities and not capital. In fact, it assumes capital is immobile and confined to national borders (IFG, 2002: 26). Concurring, Paul Treanor believes that if "Adam Smith returned and saw the more extreme aspects of neoliberalism, he would probably find them bizarre"(2003).

The IFG, like all critics of globalisation also believes that economic globalisation has been detrimental to the world community and its natural resources. They believe Multinational (or global) Corporations have become all too powerful and taken the advantage given to them by the WTO, since succeeding the General Agreement on Tariffs and Trade (GATT) in 1995 succession, to commoditise many of the world's natural and traditional resources through Trade-Related Intellectual Property Rights Agreement (TRIPs). They see this as a major crime committed by MNCs, under the auspices of the WTO, against the communities in which these natural and traditional resources come

from. This is because such national and traditional resources, also otherwise known as “The Commons”, are considered:

... aspects of life that had been accepted since time immemorial as collective property, of the common heritage of all peoples and communities, existing for everyone to share as they have for millennia” (IFG, 2002: 81)

Examples of Commons that have been (or being) commoditised (or privatised) include fresh water, genetic commons such as varieties of plants and traditional medicines that were developed over centuries by various communities, and modern commons such as fundamental needs and services of people, i.e. education, transportation, healthcare, environmental protection, security and food security (IFG, 2002: 83-97).

The commoditisation of traditional medicines and plant varieties, which were used within and share amongst communities freely for centuries, are sometimes referred to as biopiracy. While corporation using the language of global commons argue that such knowledge and materials should be shared and not locked away by small communities, the IFG argues that once these corporations attain their ultimate goal to patent them, these corporations’ arguments in defence of the commons are abandoned. (2002: 85-6). In contrast, an example of a modern common, whilst a developed product, that has been commoditised and patented are AIDs-related (or HIV-related) drugs. Understandably, developers need to recover the cost of years of research and development, however, the IFG argues that as they are vital in preventing premature deaths from AIDs, and with the hardest hit areas being in the poorest parts of the world (namely the African continent), these drugs should be made more affordable and accessible. Global pharmaceutical corporations initially rejected such calls. They refuse to set aside tight WTO TRIPs that their patents are protected under and allowed poor countries to produce locally developed and far cheaper AIDs drugs. Subsequently, global protests followed and as a result these corporations finally relented through a compromise. They lowered the cost of medications for AIDs victims in poor countries but the TRIPs rules remained. (IFG, 2002: 86)

Along with the unfortunate commoditisation of Commons, critics also assert that economic globalisation undermines the self-sufficient nature of many indigenous communities as they are increasingly forced to compete in the global market. Instead of having a life where they can sustain without the interference of outside forces, they are forced into the export trade systems that only benefits global corporations and makes individuals, communities and nations dependent and vulnerable (IFG, 2002: 26). The example of communities in developing countries growing crops for sale in the global market at the expense of traditionally grown crops has consequently resulted in the lost of some valuable crop varieties developed over centuries. The indigenous Filipino community, for instance, who once grew thousands of varieties can now only account for a few varieties for the bulk of production. The other varieties are rapidly disappearing (IFG, 2002: 27). Anti-globalisation critics argue these effects not only result in a loss of culture, but the pressure to compete in international trade leads to a race to the bottom. This is because commodity prices in the international market have collapsed and the downward pressure on commodity prices raises the burden on these communities to produce a larger yield for the same amount of profit. The increased pressure in turn forces farmers to over-fertilise and over-work their land. These, in the long-term destroy their main source of income, their land, and thus livelihood.

Stiglitz (2002) is also critical of the supranational institutions, namely the IMF. Since the inception of the IMF and its sister institution, the World Bank, in 1944, the IMF has changed markedly. Originally founded on the premise that markets often did not work well – based on the experiences of the Great depression of the 1930s – it now champions the free market ideology. Stiglitz claims that the IMF's so-called 'rescue packages' for countries in crisis which pushes for premature market liberalisation through Structural Adjustment Programs (SAPs) have in many instances hampered rather than stabilised (as intended) the economies of these countries. Some examples include the 1994 Mexican Currency Crisis and the Asian Financial Crisis. It is here commentators such as Brecher and Costello

(1994) enter the debate with a different approach to globalisation, they called it 'globalisation-from-below'. Unlike its neoliberal counterpart, globalisation-from-below is designed to empower people at the grass-roots level. It advocates democracy along with the protection of labour and environmental rights and standards – perceived as essential in the prevention of a 'race to the bottom' (Brecher et al., 1994: 78-9)

Another staunch critic of globalisation and neoliberalism, David Korten²¹, distinguishes the current nature of global economy and global capitalism from the market economy. While most critics perceive global capitalism and market economy as one, Korten clearly makes a distinction between both by firstly acknowledging the importance of the market economy and secondly criticising the destructive nature of and the inequalities caused by globalisation and global capital (1998: 3). According to Korten, global capitalism is unstable, unequal, destructive to markets, democracy and life, and impoverishes humanity in real terms through the destruction of the world's real wealth: human capital, social capital and institutional capital. Korten, though a staunch critic of globalisation, like Sen and Stiglitz, calls for institutional regulations, which he sees is necessary in promoting market efficiency (1998: 1,6).

Finally, putting the arguments against neoliberal globalisation, but acknowledging globalisation's potential succinctly, Kofi Annan, the Secretary-General of the United Nations, recognised globalisation's potential in building an inclusive world. However, he conceded, its current focus on trade and market liberalisations will only continue to widen the gap between the 'haves' and the 'have-nots' and deepen the gulf between the 'insider' and the 'outsider'²². Annan clearly blamed the rising incidences of anti-Semitism as the 'ugly faces of an exclusive, antagonistic globalisation'

²¹ David Korten is former professor at the Harvard School of Business. He was also a long time head of the USAID in Southeast Asia. He is a member of the International Forum of Globalisation.

²² 'Insider' refers to those that are included in the current process of globalisation. 'Outsider' refers to those that are excluded from globalisation.

(Annan, 2002). Exclusion creates anger and a sense of helplessness; a vulnerability that, according to David Dapice²³, well-educated anti-western moderately financed groups will take advantage of. This can then culminate in violence (2002). Annan stressed that globalisation can no longer continue to exclude the poor, the disenfranchised and those who are denied the basic rights to liberty and self-determination. This exclusive nature of globalisation must be replaced by 'inclusive globalisation', one that expands opportunity and promote cooperation and solidarity (Annan, 2002).

2.4 A Middle Way? The Case of Southeast Asia

Diversity, versatility and dynamism are some of the terms that can be used to describe Southeast Asia and its progress over the last 30 years of development. Undeniably, rapid economic development in Southeast Asia has transformed both the economic and socioeconomic landscape. This is particularly true for the economies of Singapore and the four "Asian Tigers"²⁴. In the space of 30 years the region transformed from one of the poorest in the 1960s to one of the most dynamic and successful regions in the world in the 1990s (Rigg, 1997: 4). Along with this economic success, there were increases in income levels and significant reductions in poverty (Stiglitz, 2002: 91). Within Southeast Asia, the transformation was most remarkable in Singapore and among some Asian Tigers, particularly Malaysia and Thailand. The least developed economies (LDCs) of Vietnam, Cambodia, Myanmar and Lao People's Democratic Republic, however, were not left out. Their development were slower, especially that of Lao PDR. Plagued with political instability, such as the wars experienced by Vietnam and Cambodia, it was not till reaching greater political stability around the mid-1980s (1990 for Cambodia) that industrialisation could be actively pursued.

²³ Associate Professor of Economics at Tufts University. Specialised in development economics and Southeast Asia.

²⁴ Malaysia, Thailand, Indonesia and the Philippines are often referred to collectively as the "Asian Tigers".

Neoliberals claim that the rapid development of these Southeast Asian economies prior to the 1997 financial crisis was achieved through their active participation in the global market economy, and by the adoption of neoliberal policies associated with globalisation, such as trade and financial liberalisation. Economic development leads to a rise in standards of living and it was the long periods of high economic growth that ensured the social progress made in Southeast Asia. On the other hand, critics of neoliberalism, particularly from a developmental perspective, argue that although Southeast Asia participated in the market economy, its rise to economic dominance was carefully planned (Sen, 1999: 7), and through lessons learnt from neighbouring economies of Northeast Asia of Japan, South Korea and Taiwan (Brecher et al., 1994: 74). Concurring with Sen and Brecher et al., Stiglitz adds that it was a combination of high savings rates, government investment in education, and state-directed industrial policy that were the primary factors which led to their rise of economic dominance (2002: 92). This type of 'institutional complementarity' between economic development and governments, according to Amartya Sen, is unique to Northeast and Southeast Asian development (1999:6). That is, human development in both Northeast and Southeast Asia was made possible alongside economic development. Thus, to assert that globalisation is bad for a country's development is as incorrect as it is to deny the role it had in making Southeast Asia one of the most dynamic regions in the world pre- and post-crisis. As with all outcomes, there are positive and negative aspects, but in general one will out-weigh the other.

Economic globalisation has encouraged increased competition between multinational companies. Such competition and the need to sustain a competitive edge (for survival) are the driving forces behind the advent in much technological innovation and advancement. These innovations and advancements could undoubtedly benefit the countries of the South when it is transferred, spilled-over and/or diffused. However, the rate and the level of diffusion is contentious. Economic globalisation has also led to trade and financial or capital market liberalisation. The former has led to

increased trade activities, i.e. between 1950 and 1998, the value of trade increased from less than 1 trillion US dollars to almost 5.5 trillion US dollars while the volume of world merchandise exports and Asian merchandise exports between 1973 and late 1998 grew by 5.07 percent and 5.95 percent respectively (Maddison, 2001). Notable also were the formation of (or moving toward) free-trade agreements (FTAs) both bilaterally and multilaterally, such as intra-regional agreements or trading blocs like the European Union (EU), the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, Association of South East Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC). The impact on financial market liberalisation, on the other hand, has been less positive in Northeast and Southeast Asia. The theory or idea behind financial and capital market liberalisation is that it allows foreign investors to invest their capital freely in liberalised or liberalising markets, often in the currency or stock markets, and in return, it increases international capital available for loans. The rapid liberalisation prior to the 1997 Asian financial crisis brought massive influx of short-term capital investments and currency speculations, both of which later were to later cause much grief to some Asian countries.

2.4.1 Trade Liberalisation

Trade and its liberalisation also brought more tangible benefits. It has a proven track record in Northeast and Southeast Asia. Many governments saw it as a means to move away from poverty, promote and ensure sustainable economic growth and to industrialise. Trade through exports was a major contributing factor in transforming both Northeast and Southeast Asia into two of the most dynamic regions, and it remains an important vehicle for continual economic expansion. Trade resulted in technology transfers and diffusion which (although disputed) have played a major role in transforming many economies of Northeast and Southeast Asia from being largely agrarian, relying on a subsistence existence, into manufacture-based economies with opportunity to value-add.

Globalisation and the market economy, as advocated by neoliberals, are believed to provide a level playing field for all, benefiting developing and developed nations alike (suggested by Larsson – as discussed earlier). Thus, by liberalising trade developing and developed countries are trading and/or competing on an equal basis. In theory, this claim holds true but in reality, there is no level playing field as at the most fundamental level, developed and developing countries by definition are at very different stages of development, and therefore have different capacities to compete. Chang (2002 cited in Ocampo, 2005:15) argues that this so-called “level playing field” actually places “restrictions on the developing countries that the industrial countries themselves never faced in previous periods of their history...”, for example, intellectual property protection. New technologies or innovations are often protected by TRIPs set by the WTO. This, in turn, makes them too expensive for developing countries to purchase and when they seek to copy it, it is illegal (Ocampo: 2005: 15). Consequently, many poorer nations are limited to exporting commodities that only requires low levels of, or very little, technology. Unfortunately for these countries, prices of commodities that requires low levels of technology for production such as rice, wheat, coffee and cocoa, have collapsed (Rosenberg, 2002) and fetching a similar level of income developed countries previously earned is either require far greater yields or is unattainable. Another example, one that is highly publicised and mentioned earlier, is the access; or rather the lack of, to expensive patented anti-viral drugs for the HIV sufferers in Sub-Saharan Africa. The lack of these vital drugs has meant premature deaths (HIV sufferers with access to anti-viral drugs can now live relatively healthy and long lives), and babies born with the disease would have been otherwise if their infected mother were provided with the appropriate drugs (i.e. mother-to-child transmission). Of the estimated 700,000 babies borned HIV positive in 2003, 90 percent were from the poorest region in the world, Sub-Saharan Africa. Comparatively, the incidences of HIV babies are much less in the developed world. Such is the force of the epidemic that a whole generation is lost in some communities and grandparents are left with raising grandchildren. Up to 12 million children are orphaned (BBC News, 30 June 2005). Sub-

Saharan Africa, however, is an extreme case of poor countries where patented and expensive technologies (in this case, drug) were inaccessible and where globalisation had negative implications. Most of today's advanced economies had not, and did not have to, face such hurdles whilst developing.

The role trade and trade liberalisation has undoubtedly brought to economic development and subsequently social development in many parts Asia. However, the virtue of simply liberalising trade is often questioned. Outside of Northeast and Southeast Asia, in developing countries from poorer regions it has not led to the same level of economic progress. Critics claimed for many of these poorer countries, trade liberalisation had not been particularly beneficial or successful. Instead, they believe trade liberalisation had stifled the growth potential of these countries. It has displaced many farmers as a result of their inability to compete with large MNCs in the international market, i.e. many families have been forced of their land as they can no longer afford or tend it. These critics, thus, question trade liberalisation's fairness, they also question if trade is in fact truly free. They believe the actions of developed countries as hypocritical: advocating for developing countries to liberalise whilst their continue to impose trade restrictions, such as trade-barriers and particularly, non-trade barriers (NTBs)²⁵, against these developing countries. An example of this is the highly subsidised agriculture sectors in Europe and the United States. In Europe, farmers have their incomes subsidised by 35 percent, and in the United States incomes are subsidised by 20 percent. Subsidies depress prices which in turn stimulates or results in over-production of produce/commodities. Over-production subsequently leads to a surplus in stock, which is then dumped in various foreign markets at below market price. Farmers in developing economies simply cannot compete with these subsidised and below market price produce. As a consequence, many of these farmers in developing countries

²⁵ Trade Barriers are government limitation on the international exchange of merchandise. Examples include tariffs, quotas, restriction on the issuing of import licences and stringent regulations relating to health and safety standards. Non Trade Barriers are obstacles (or barriers to entry) to imports other than tariffs and quotas. These include health, safety and construction regulations and the use of it that favours the domestic products over imported products (subsidies), deliberate delay or obstruction at custom facilities etc. (Bannock et al., 2003: 279, 384)

faced by the prospect of starvation are forced off their land in search of work (Rosenberg, 2002). Most end up working for large MNCs that exploit not only their desperation, but also that of their government's for economic development. With these governments' only means to successfully attract foreign investment being labour, they put under great pressure to make concessions which compromise their labour and environment standards. This downward pressure, which began with trade liberalisation, then creates a race to the bottom.

When examined closely, the success of Northeast and Southeast Asia's trade liberalisation and export-oriented policies lies in the role of their governments. Unlike the simplistic claims of neoliberals that it was purely and simply "liberalisation", governments in Northeast and parts of Southeast Asia did not bow to the little international pressure that there was and chose to liberalise at their chosen pace. Despite being opened to foreign investment, the policy approach of these governments in fact were in essence protectionist, designed to keep domestic markets free from imports and vital industries that are not yet fully developed strategically protected. Once these industries become developed, the process of liberalisation begins.

2.4.2 Financial Market Liberalisation

In both Northeast and Southeast Asia, the pace of financial market liberalisation in the late 1980s and early 1990s is a major issue of contention. It has been argued by many economists such as Wade, Stiglitz and Sachs that Southeast Asia in particular, had not been ready for financial and capital market liberalisation as the relevant sectors were not adequately or fully developed. In trade, unlike financial market liberalisation, governments had been uncompromising in the path it chose since the 1960s, liberalising at its own chosen pace, through outward export-oriented policies.

Financial market liberalisation, in contrast, was insisted upon in the late 1980s, early 1990s by institutions such as the IMF and World Bank in which the US Treasury Department has significant influence. Such strong pressure to liberalise was considered unnecessary and the extra capital it was to bring not required. Most countries in Southeast Asia traditionally have high saving rates, and therefore, sufficient supply of capital for loan investments. Stiglitz believes these economies should never been pressured to liberalise. Their financial market infrastructures (or institutional framework) are inadequately or not fully developed, and subsequently were unable to cope with the volatile nature of short-term capital that it brings. In due course the financial markets, like trade, would have liberalised (Stiglitz, 2002:94-95). However, liberalisation did occur. In Asia, this led to the sizable increased in presence of investment banks throughout the region, resulting in a significant increased influx of short-term capital (also known as “hot money”). This led to an over-investment in the property market throughout Asia, and its subsequent crash starting in Thailand. The property market crash was quickly followed by a currency crisis. The property market meltdown (followed by economic meltdown in general) left many buildings unoccupied, rapid depreciation of many Asian currencies (most affected currencies being the Thai Baht and Indonesian Rupiah), worsening inflationary pressures and the resulting closure of businesses.

For many countries in Southeast Asia, the property boom and the increased volume of readily available foreign short-term capital also meant that loans were being given to, as Hugon calls it, “organisations of dubious profitability” (2000: 500). The property boom was in reality an over-investment in the property market. When the property market bubble finally burst in Thailand in the middle of 1997, it led to massive outflow of short-term capital (or “capital flight”) and the free-fall of the Baht from currency speculation. Thailand’s crisis quickly became the region’s crisis with investor pulling out of other parts of Southeast Asia. Prior to becoming contagion, the Thai government attempted to stem the crisis by floating the Baht, which only saw a rapid depreciation. To stem the

free-fall of the currency, the Thai government tried buying the Baht with its reserve of US dollars, but this only fuelled speculations. Similarly, when the IMF stepped in with a rescue package, which prescribed (among other advice) to continue on buying back the Baht, it only exacerbated speculation and depreciation (Hugon, 2000: 500 & Stiglitz, 2002: 94-95). For Thailand, this was the wrong medicine prescribed.

Outside of Southeast Asia, there are also several examples where rapid deregulation (or liberalisation) of the financial sectors also affected many countries negatively. The Russian and Latin American experiences are such examples. For Russia in particular, the transitional nature of its economy meant that much of its infrastructures and institutional framework are also in their transitional phases. Essentially they were under-development. As a result, when state-owned enterprises were rapidly deregulated and privatised after the demise of the Soviet Union, it led to a select few people taking advantage of the poorly developed institutions and hence emergence as powerful oligarchs (Stiglitz, 2002). Within Asia, there is the example of the more developed South Korea – as with most Asian economies – was similarly “encouraged” to liberalise its financial markets rapidly. Initially, the government resisted, but the pressure of looking irresponsible and the possibility that this resistance might drive away other donors and investors were too great. It must be understood that the South Korean government was not anti-liberalisation; in fact it had charted a path for it, one that is slower and more suited for its economy²⁶. As a result, the financial crisis affected South Korea more profoundly than many of its Northeast Asian counterparts (Japan, Hong Kong and Taiwan – although this is not to say they were not affected). For its recovery, Korea ignored IMF advice and set about recovering on its own terms. Malaysia also ignored IMF policies. Instead of trying to prop up its currency, the Ringgit, Malaysia enforced capital controls measures.

²⁶ The South Korean economy was in many ways more about self-reliance with an export oriented outlook and utilising its own fund/wealth for development compared to many of its East Asian counterparts. For instance, rather than relying on or inviting foreign companies to invest in the country, it created its own enterprises. That is, despite its outward policies, its domestic market remained protected.

Initially, Malaysia was widely criticised for such a move, but it was effective in stemming capital flight, and subsequently prevented the kind of downward spiral experienced by the Indonesian economy. The financial crisis not only crippled Indonesia economically, but people's livelihoods were also greatly compromised as a subsequent to hyperinflationary pressures and rapid depreciation of the Rupiah.

2.4.3 Multinational Companies, Foreign Direct Investment and Technology

Engaging in export-orientated policies is a long-term investment by many Northeast and Southeast Asian economies. The returns generated should allow additional acquisition of new technology, skills and knowledge, value adding to manufacturing processes further enhancing the export potentials of these countries. To enhance their export capability, many countries enhance their attractiveness by allowing FDIs, done primarily by attracting MNCs to relocate their manufacturing activities in their borders. Many MNCs bring with them their technology, knowledge and experts. Developing countries in their early stages of development often lack such human capital but have an abundance of low-cost labour that can minimise production costs of MNCs, and therefore maximise profits and shareholder value. However, for the foreign MNCs, this abundance of low-cost labour often outweighs the lack of skilled-labour. Nonetheless, the preference to invest or relocate to a country where there is the presence of some human capital is still there for the MNCs. For Northeast and Southeast Asia, it is such low-cost labour combined with a workforce that, at the very least, had a basic level of education that attracted MNCs to invest. This is because a literate workforce is more versatile, they are faster learners and therefore able to adapt to new techniques or technology. An example of this is Malaysia, a country that welcomed and relies on FDI. MNCs were initially attracted to invest in Malaysia because of its supply of cheap labour is cheap that is also literate. Malaysians, moreover, had a better understanding of English than most of its neighbours. Thus, high literacy

coupled with English skills gave MNC access to a workforce that had the ability to adapt and learn quickly. (Snodgrass, 1998: 173-178).

While MNCs can aid economic development, they could just as easily exploit the abundant low-cost labour and the desperation of developing countries to industrialise. Developing countries often have ill-developed workplace and environmental standards that could be exploited. Governments can choose to allow the exploitation of their loosely regulated labour and environmental laws, thus leading to a race to the bottom (George, 2000). There is also the question of how much of the new technology and know-how is transferred from the foreign investors to the domestic industries of the host country (Thomsen, 1999). Often technology and knowledge are what sets MNCs apart. It is their competitive advantage over other MNCs and they are, understandably, reluctant to relinquish these. That is, MNCs are unlikely to transfer their most advanced knowledge and technology to host countries, often choosing to employ people from their native countries in higher positions and/or retain the manufacturing of their most value-added products at home (Wade, 2004: 178). As Tina Rosenberg in her article *The Free-Trade Fix* puts it, technology "is limited in part because most foreign trade today is intracompany" (2002). Nevertheless, any upgrading of technological capacity provides a basis for subsequent upgrading of others.

The story of Volkswagen Beetles is an epitome of how globalisation and technology can benefit the people of a developing country, yet at the same time disadvantage the country in the long-term due to insufficient technology transfer. All Beetles are today manufactured near the Mexico City of Puebla. There Volkswagen and its suppliers in an industrial park close by employs approximately over 25,000 people. The factory is modern, clean and believed to rival factories in the company's home country (Germany) and its employees among the highest paid in the industrial sector. However, in its 40 years of presence in Mexico, there has been very little transfer of technology or

know-how to the local host, and despite purchasing almost two-thirds of its parts in Mexico, the majority of these “local” suppliers are foreign owned. While MNCs such as Volkswagen and its foreign-owned suppliers have created job opportunities for many Mexicans, who as a result are perhaps living better lives, they has failed to enhance local know-how important to the long-term development of the Mexican industrial sectors (Rosenberg, 2002).

While Mexico had little success with its acquisition new technological know-how from its foreign investors, it is only fair to note that Northeast Asia, and to a lesser extent Southeast Asia, had more success. Many Northeast and Southeast Asian governments along with being opened to the investments MNCs bring, are also protective of their local industries. Subsequently, these governments place conditions on the MNCs for their presence which they see as mutually beneficial. That is, for the access of low-cost but literate workforce, MNCs were, firstly, required to transfer technology and knowledge transfers, and secondly, given limited or no access to the domestic markets. This afforded more time to develop high-tech or value-added industries (Sachs cited in Rosenberg, 2002), which resulted in Northeast and Southeast Asia remarkable growth and transformation into the dynamic region that it is today.

2.4.3 Human Capital

Globalisation through increased trade or trade liberalisation, FDI, market integration and technology transfer or innovation were not alone in driving economic development in Northeast or Southeast Asia, and it is incorrect to assume so. While these factors of globalisation remained a vital part of Southeast Asian economic development, the availability of human capital was also very important. According to Rowen, Southeast Asia owes much of its rapid development, to a literate, healthy and therefore more productive workforce. He elucidates the emphasis by the governments on raising literacy levels and invested heavily on basic education since the 1960s, i.e. in primary and secondary

schooling, as a key reason to Southeast Asia's economic success. It was an investment paid off handsomely (Rowen, 1998: 22-27). Without the investment into education, the chances that technology is transferred, diffused and absorbed effectively limited. Therefore, by upgrading educational standards of its workforce, governments value-added the potential of their people. By doing so, foreign investors were provided with access to an abundance of labour that is literate or semi-skilled. Once mobilised, this workforce effectively helped transform their largely agrarian economies to manufacture-based economies (firstly, to labour-intensive manufacture industries such as the footwear and textile, and later to more value-added manufacture industries such as electronics). As Paul Krugman explains, Asia's miracle has been "based on perspiration rather than inspiration", using Singapore as an example, he continues:

Singapore grew through the mobilization of resources...[Where] the employed share of the population surged from 27 percent to 51 percent. The educational standards of that workforce were dramatically upgraded: while in 1966 more than half the workforce had no formal education at all, by 1990 two-thirds had completed secondary education (1994).

The Malaysian government, while initially not as aggressive as Singapore in "upgrading" the educational standards of its workforce, was nevertheless able to similarly utilise a population that had a basic level of education (i.e. by the 1960s, the enrolment ratio of population in primary education was around 90 percent).²⁷ Moreover, making Malaysia even more attractive to foreign investors was the widespread knowledge of English among its population. Foreign investors saw this as an advantage as it made training and communicating with workers easier. These workers were responsible for the initial success of the garment and electronic industries. Malaysia, however, quickly ran out of low-cost labour. The reason for this was that, as the economy grew, so did the incomes levels and living standards of the Malaysian people. Combined with the upwardly mobile expectations and knowledge of the people as a result of the government's heavy investment

²⁷ However, as a multiracial society, it must be noted that educational levels attained by the three main ethnic groups – Malays (or *Bumiputra* – sons of soils), Indians and Chinese – varied. It was one of the major sources of ethnic tensions which erupted into a race riot in May of 1969. Education had allowed the Chinese to be more upward socially mobile and it had also led to greater wealth generation potential. In contrast, the many Malays had lived in impoverished conditions with little prospects of employment.

emphasis on secondary and tertiary education between 1970 and 1990 over primary education, increasing numbers of low-cost labour intensive jobs were left unfilled. As a consequent, Malaysia resorted to using immigrant labour. Meanwhile, the economy by the 1990s, transformed from being largely agriculture-based in the 1960s to one where 80 percent of all exports were manufactured goods (Snodgrass, 1998: 173-178). Thus, the experiences of developing Southeast Asia, particular this example of Malaysia, do not support the anti-globalists position that a race to the bottom is present, or that the race to attract FDI by developing countries always lead to a race to the bottom. Foreign investments had the propensity to go to countries where human capital is present, not just only cheap labour. However, Southeast Asia's experience is neither neoliberal. Whilst there have been trade and financial liberalisation, much of its success is owed to the role respective governments played in promoting education.

As for the people themselves, the education policies in their countries lifted them to universal (or close to universal) enrolment in primary education, rapidly improving rates of children completing grade 5 and an increasingly literate population (refer to chapter four for statistics) by the 1990s. In doing so, governments in Southeast Asia have ensured social development, but most importantly they have empowered the individual to enhance their capabilities and earning capacity, and ability to improve their own standard of living. Education has made the citizens of Southeast Asia noticeably more resilient against hardship; a resilience which saw the 1997 financial crisis affected countries survive. Though not yet entirely recovered, many of these countries were able to restart their stagnant economy, due in part to the capacity and capability of their human capital.

In summary, the literature examined indicates the experiences of developing Southeast Asia do not conform to the anti-globalists position that a race to the bottom is present, or that FDI was naturally attracted to countries with the lowest standards. Foreign investments in Southeast Asia, instead, had

the propensity to go to countries where human capital is present and not only to where labour is cheap. However, Southeast Asia's experience can neither be considered solely neoliberal. Whilst there have been trade and financial liberalisation, much of its success is owed to the role respective governments played in promoting social development, particularly education. In fact, since the 1997 financial crisis, it has become apparent that economic globalisation as advocated by neoliberals is not without its failures. Nonetheless, it must also be acknowledged that prior to the crisis, aspects of globalisation had also contributed to Asia's rapid march towards industrialisation. Examples of these include the presence of foreign investments, the adoption of export-oriented policies and the liberalisation (albeit controlled) of trade. Thus, a conclusion drawn from literature is that Southeast Asia's (and Northeast Asia) development was neither entirely neoliberal or protectionist. Drawing on this literature, the following two chapters (chapter three and chapter four) will examine the extent of developing Southeast Asia's social progress in the 1990s and early 2000s in relation to economic development. A key aspect for this comparison is to see whether empirically there had been a race to the bottom, as suggested by critics of globalisation, whether there had been absolute improvement in living standards, and whether the presence of social development was a direct consequence of economic development as posited by neoliberals.

Chapter Three: Southeast Asia's Economic Development (1990-2000)

Similar to Northeast Asia, economic development in Southeast Asia has undoubtedly been remarkable. Malaysia, Indonesia and Thailand²⁸, three of the five founding Association of South East Asian Nation (ASEAN) members²⁹, are among the most successful economies in the Southeast Asian region. Economic policies emulated those of Japan and the Newly Industrialising Economies (NIEs)³⁰ – outward and export oriented. However, Myanmar, Vietnam, Lao People's Democratic Republic (PDR) and Cambodia are among the world's least developed economies and in contrast to their successful neighbours, remained closed until relatively recently. Notable also, are the differences in the state of the political environment where countries with extended periods of stability were more conducive to economic growth.

This chapter examines, and compares in detail, the economic development and openness of the eight developing Southeast Asian countries, using seven key economic indicators will be used. The state of economic growth and development will be measured using indicators of Gross Domestic Product (GDP), Unemployment rates, Consumer Price Indexes (CPI), Current Account measures (in

²⁸ Singapore is not examined as this thesis only focuses on developing economies in the region.

²⁹ ASEAN was founded on August 8, 1967. The five co-founders were Indonesia, the Philippines, Singapore, Thailand and Malaysia (<http://www.aseansec.org/64.htm>).

³⁰ Newly Industrialising Economies - Singapore, South Korea, Taiwan and Hong Kong

US dollars), Gross Domestic Investment, and the state of each economy's openness and level of market integration will be measured using Foreign Direct Investment (also in US dollars) and trade Figures (merchandise imports and exports). This examination emphasises just how much economic development or lack of it, especially sustainable development, is dependent on the political environment. Gilis et al., maintain that political stability is one of three key factors behind quicker and sustainable economic development. The other two factors are political independence and the politics of development policy (Gilis et al, 1996:24-28).

Political stability – at the minimum – refers to an environment where there is no civil war, insurrection, or the chance of invasion by hostile forces (or continuity without major political disasters). Without such stability there will be little or no foreign and/or domestic investment, thus limiting a country's development capacity. Pre-Communist China (i.e. before October 1949/during Communist uprising); Vietnam in the 1950s and 1960s; Cambodia in the 1970s and 1980s are all examples of this (Gilis et al, 1996:24-25).

While political stability encourages economic development, sustainable economic growth depends on political independence³¹ and the role of government policies in promoting economic development. Gillis et al, also contend that non-politically independent countries – such as those ruled by colonial governments – are capable of creating a stable environment conducive to investment and economic growth, but these investments are not often in the interest of the colonised. Instead, such investment serves mainly the specific interests of the colonisers (Gilis et al. 1996:25). In Malaysia prior to independence in 1965, for example, colonial rulers benefited from the tin trade but reinvested little back in its people, particularly education (Snodgrass, 1998). As a result, growth and investments in

³¹ Political independence refers to being no longer under colonial rule.

countries under colonial rule do not necessarily translate into substantial economic development.³² Yet, achieving political stability and political independence are only the first steps toward achieving an environment conducive to sustainable development. The role of governments in providing correct initial and on-going economic and social policy is also crucial to managing the changes development involves.

Of the eight countries examined here, Malaysia, Indonesia, Thailand and the Philippines have had long periods of political stability and independence. As a result, along with good economic policy decisions, they developed quicker than Cambodia, Lao PDR, Myanmar and Vietnam during the second half of last century. Vietnam was affected by war from the 1940s to 1970s; Cambodia was at war in the 1970s and in the 1980s experienced its darkest period under the Khmer Rouge; Lao PDR, prior to its emergence as a communist state in the mid-1970s, experienced years of internal conflict; finally, Myanmar – as Burma – experienced a coup by a junta in the 1960s and has since been governed more or less continuously by military dictatorships. Over the last fifteen to twenty years, however, Vietnam, Cambodia and Lao PDR have experienced a growing degree of political stability. Governments in these countries have since been able to pursue economic development instead of war and conflict. The subsequent creation of more open economic environments favourable for trade and investment have resulted in improved economic performances.

Of the group of the eight examined, all but Thailand had been colonies European or Western powers.³³ While significant economic activities occurred under colonial governments, few Southeast

³² The terms economic growth or activity and economic development should not be used interchangeably or confused with one another. There is a fundamental difference between the two. Firstly, economic growth refers to a rise in national or per capita income and product. Economic development, in addition to economic growth, implies a fundamental change in the structure of the economy, such as a rising share of industry along with a falling share of agriculture in the national product, increasing percentage of people living in cities over countryside living, and change in consumption patterns (Gillis et al, 1996: 7-8).

³³ Malaysia and Myanmar had been colonies of Great Britain; Indonesia a Dutch colony; the Philippines, a Spanish colony then later a colony of the United States of America; Vietnam, Lao PDR and Cambodia were French colonies.

Asian countries experienced much economic and socio-economic development. Real economic progress for Malaysia and Indonesia, in particular, and to a lesser extent the Philippines, was attained only after political independence. Post-independence economic policies were naturally more directed towards national economic development. However, development prospects worsened in the post-independence LDCs where all experienced significant periods of instability. There, continual political instability at the time of political independence prevented suitable policies beneficial to growth and development being pursued and implemented.

For the purpose of this chapter, the eight countries are divided into two groups. Indonesia, Malaysia, Thailand and the Philippines – countries that have had the longer periods of stability – hereafter are grouped together as ASEAN4. The remaining four – Cambodia, Lao PDR, Myanmar and Vietnam – having only recently experienced greater degrees of political stability, will form the second group of Least Developed Countries or LDCs. All data used are from secondary sources, primarily from the Asian Development Bank's Key Indicators and its annual publication the *Asian Development Bank Outlook*.

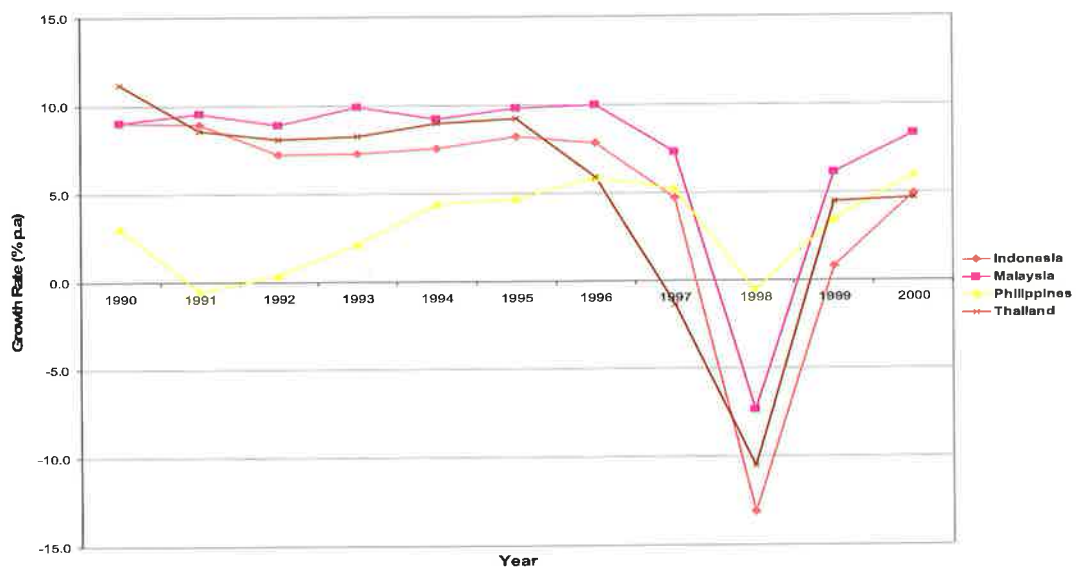
3.1 Gross Domestic Product

For much of the 1990s, both groups of Southeast Asian countries recorded high GDP growth. Having had longer political stability and independence as well as longer economic development, the ASEAN4 countries at least until the outbreak of financial crisis in 1997, had the steadier growth (Figure 1). In contrast, GDP Figures for the LDCs tended to fluctuate (Figure 2). In Cambodia and Myanmar, GDP in the early 1990s reflected their political instability and/or lack of political independence.

3.1.1 ASEAN4

With the exception of the Philippines, GDP growth in ASEAN4 countries prior to the financial crisis ranged between 7 to 10 percent. At the same time, the Philippines experienced the least consistent and lowest level of GDP growth of the four. However, the Philippines also appeared to be less affected by the 1997 financial crisis. This feature can be seen in Figure 1 where the Indonesian, Malaysian and Thai GDP activities contracted by greater than 5 percent in 1998 while in the Philippines, the GDP contraction was only around 1 percent.

Figure 1: Gross Domestic Product (ASEAN4)



Malaysia experienced the greatest GDP growth consistently greater than 8 percent between 1990 and 1996, which along with price stability, can be largely attributed to sound macroeconomic management. In 1996, Malaysia's economic growth peaked with GDP growth of 10 percent in 1996. The onset of the financial crisis in July 1997 disrupted growth in the second half of the year resulting in overall growth reaching only 7.3 percent. The full impact of the regional crisis did not hit until 1998 where for the first time in over 5 years, Malaysian GDP contracted by 7.4 percent. However, the economy quickly rebounded in the following two years with positive growth of 6.1 and 8.3 percent. According to Joseph Stiglitz, this result was due to Malaysia having better institutional structures and

because of the government's swift action in putting the economy under capital control, halting further flights of capital and preventing many businesses – local and foreign – defaulting (Stiglitz, 2000).

Thailand follows Malaysia as the next best performing economy. In fact, GDP growth for the first five years of the 1990s was between 8 to 11 percent. The first signs that the Thai economy was in trouble occurred when growth fell to 5.9 percent around 1996. By early 1997, constant speculative attacks on the Thai Baht and the closure of several finance companies were clear signs that the Thai economy was indeed in great trouble. In an attempt to stem the deterioration, the government floated the Baht on the foreign exchange market on July 2, only to see the economy worsen and the currency depreciated rapidly. Within weeks, Thailand's local economic crisis became a regional one (Stiglitz, 2000). At its worst, the financial crisis caused the economy to contract by 10.5 percent in 1998.

In Indonesia, the economy also performed strongly prior to the crisis. Between 1990 and 1996, it recorded growth levels consistently above 7 percent, fuelled by robust private consumption and foreign investment. When the financial crisis hit in the second half of 1997, economic growth weakened and GDP fell to 4.7 percent. Growth was further undermined by an agriculture sector severely affected by the El Nino phenomenon, drought and forest fires. The following year, the economy contracted for the first time in over a decade by 13.1 percent. Yet, signs of recovery were already evident toward the end of 1999 when GDP growth returned.

Economic growth in the Philippines throughout the 1990s had been less impressive than most Southeast Asian countries. A recession in the early 1990s saw GDP at its lowest in 1991, 1992 and 1993. Growth improved to 4.4 percent in 1994 and to 4.7 percent in 1995. The ADB attributes much of the Philippines economic turnaround to greater political stability and the rewards from a decade

long economic reform to liberalise its once protected economy (Asian Development Bank [ADB], 1995:97). As a country still heavily dependent on agriculture, the Philippine economy continued to stabilise in 1996 and 1997 despite adverse weather conditions caused by the El Nino phenomenon. It subsequently surpassed 5 percent growth for the first time in the 1990s. In 1997, while many Southeast Asian economies were severely affected by the regional economic crisis, the Philippine economy emerged relatively unscathed, recording 5.2 percent growth (ADB, 1998: 101). However, in 1998 the economy contracted and GDP plummeted to -0.6 percent, its lowest levels since 1991. Positive economic growth returned in 1999 with an annual growth rate at 3.4 percent and 6 percent in 2000, results attributable to a stronger agriculture sector as a result of the end of El Nino.

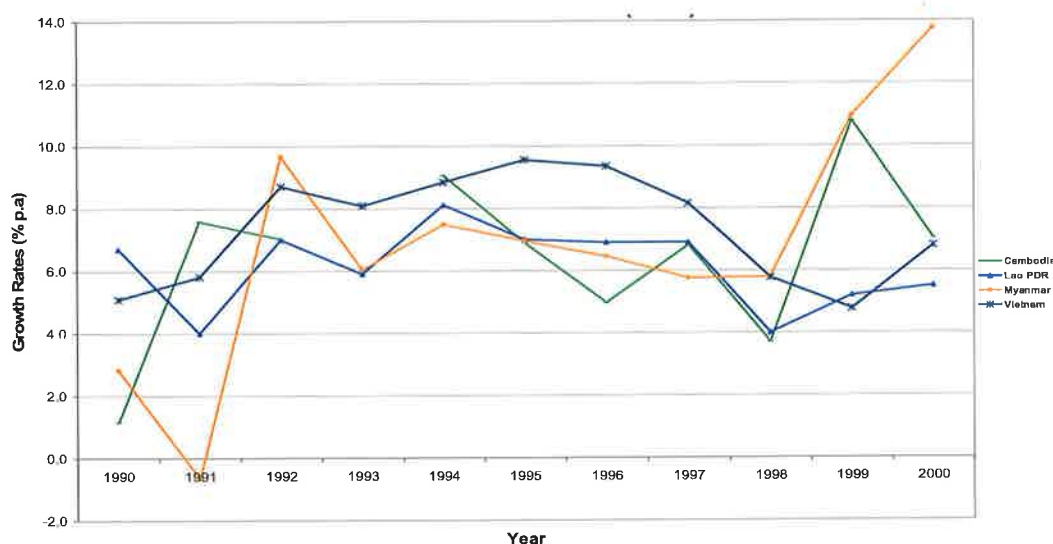
3.1.2 Least Developed Countries

Until around 1990 to 1995, economic development in the LDCs of Myanmar, Lao PDR, Cambodia and Vietnam – had been weak. Only after achieving political stability could policies toward sustainable economic growth and development be pursued. As each economy began to open up from the mid 1980s, growth though at times unstable improved. However, unsteady economic growth, as shown in Figure 2, usually followed political instability. For example, GDP growth halted in Cambodia in 1993 and 1998, coinciding with the country's first democratic election and the subsequent collapse of a fragile coalition government. The political uncertainty and tensions surrounding such events subsequently caused investors – domestic and foreign – to be very cautious.

In fact, there were fluctuations in Cambodia's economic growth throughout the 1990s, ranging from a low 1.2 percent in 1990 to a high of 10.8 percent in 1999. In 1991, the signing of the Paris Peace Accord marked the beginning of the end to the country's civil war and the economy grew at some 7 percent, due in part to a surge in foreign investments. In 1993, however, GDP growth declined due

to the political instability surrounding the May election and the subsequent formation of the coalition government between Hun Sen's Cambodian People's Party (CPP) and Prince Norodom Ranariddh's royalist FUNCINPEC party. Foreign and domestic investor confidence slumped and with it, the country's economic growth. Growth recovered in 1994 and reached approximately 9 percent, but as political instability continued, so did the fluctuations in economic growth for following three years. When political instability escalated once more in July 1997³⁴, political violence broke out and GDP growth fell to 3.7 percent in 1998, its lowest in eight years. With it, the United States and Germany subsequently suspended their foreign aid to Cambodia. Only with an improved political climate in 1999 and 2000 did economic growth return to higher levels.³⁵

Figure 2: Gross Domestic Product (LDCs)



The growth in GDP in Vietnam and Lao PDR was steady compared to Cambodia. Between 1991 and 1998, the growth patterns of the two were similar (See Figure 2) with both Vietnamese and Lao PDR experiencing consistent 5 percent plus growth for much of the 1990s. Vietnamese growth prior to the regional crisis was approximately 8 to 9.5 percent, stimulated by the industrial sector and

³⁴ Prime Minister Prince Norodom Ranariddh was ousted by co-Prime Minister Hun Sen in July 1997 following several years of political tensions between the two coalition parties.

³⁵ Information on the political events which coincided with economic fluctuations in the Cambodian economy were from the Department of Foreign Affairs and Trade website; URL: <http://www.dfat.gov.au/geo/cambodia>

continual economic reforms (ADB, 1997). While the impact of the financial crisis on the Vietnamese economy was less severe than the ASEAN4, the effects of the crisis nevertheless slowed growth in 1998 and 1999. Three years after the onset of the crisis, FDI into Vietnam had dropped significantly, particularly from within the region. As regional FDI accounted for two thirds of all FDIs in Vietnam, this drop slowed growth significantly. Along with the crisis, loss of reform momentum and stagnating domestic demand had also been identified as contributing factors to the slowdown. This, however, was short-lived with a return to growth rates of 6.8 and 6.9 percent in 2000 and 2001.

Lao PDR, like Vietnam, also achieved relatively high economic growth rates in the 1990s. With the exception of 1991 and 1998, growth averaged between 6 and 7 percent. The Laotian economy was found to be less affected by the 1997 crisis, due in large to its lower level of integration with the East Asian region. The economy was not unaffected by the financial crisis, however. Dependence, in particular, on Thai investment has made Lao PDR particularly sensitive to fluctuation in Thailand (ADB, 1998: 90). This sensitivity was evident when Lao PDR was indirectly affected by the financial crisis, after a fall in investment entering Lao PDR. Economic growth quickly recovered post-1998 to around 6 to 7 percent as a result of a better performing agriculture sector and increase penetration of its manufactured goods into the European market (ADB, 2000: 95).

Of the four least developed countries of interest, Myanmar is the only economy where the political environment has remained unfavourable. Since the late 1980s, after the country's failed attempt to democratise, many foreign – largely western – investors have either departed or decided against investing in Myanmar. Nevertheless, economic growth was sustained at a relatively high rate throughout the 1990s, where GDP was often above 5 percent and reached as high as 10 percent or greater on three occasions, i.e. 1992, 1999 and 2000. With little western interest due to its unfavourable, undemocratic political regime, Myanmar's high and sustained level of growth was

fuelled by largely Chinese government (and some Chinese enterprise) investment and trade (Bunyanunda, 2002: 128-129). Mainland Chinese from South-western China have also been significant investors in Myanmar since the late 1980s. Notable also, is the increased involvement of ASEAN members in its economy since the early 1990s. Singapore and Thailand, along with China, are Myanmar's largest trading partners (Lee, 2004). With agriculture accounting for a significant proportion of the GDP (42 percent in 1999), the slight slowdown in economic growth from the mid-1990s to around 1998 was a result of adverse weather – drought in upper Myanmar and monsoonal downpours in the lower parts (ADB, 2000: 107). Despite this, GDP growth remained relatively high, ranging from 5.8 percent to 6.9 percent. Growth was at its lowest in 1990 and 1991, a consequence of the failure to put in place a legitimate government after the elections of 27 May 1990. While the actual elections were free and fair, the results indicated a win for the National Democratic League led by Aung Sung Suu Kyi. The military (junta) then refused to relinquish power. Such political instability and high degree of military dictatorship consequently affected growth. In 1992, the economy grew by almost 10 percent followed by 6 percent and 7.5 percent over the following two years. This was followed by steady decline in growth between 1994 and 1998 due to, as mentioned, adverse weather, while the financial crisis appears to have little effect on the economy (ADB, 2000: 107).

3.2 Inflation

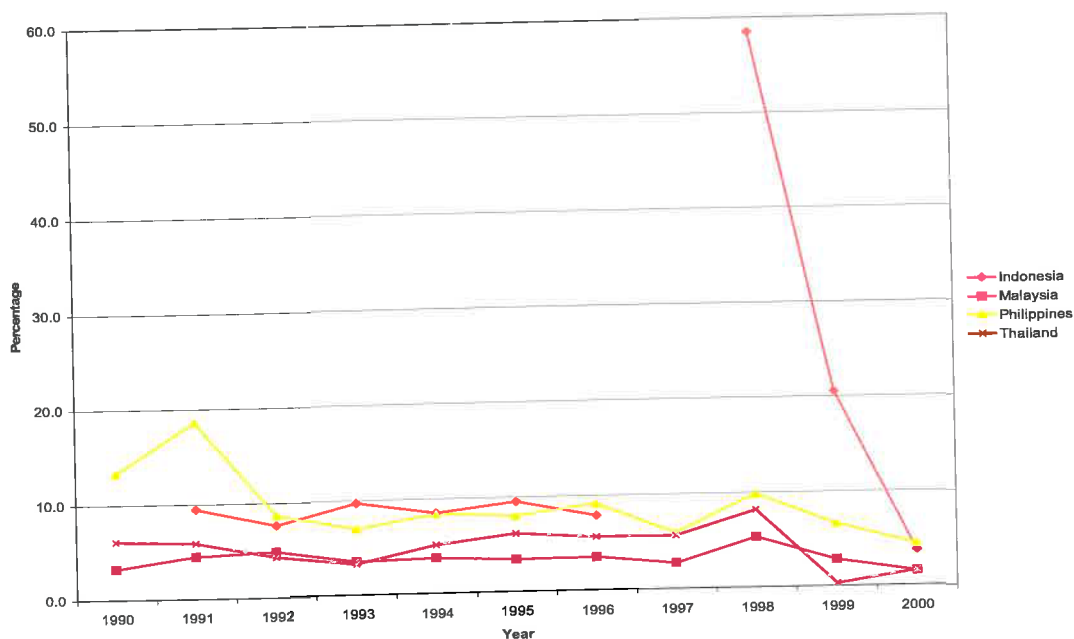
The difference in the rate of inflation between the two groups – as expected – is that it was steadier and lower among ASEAN-4 countries in general (Figure 3) than the LDCs (Figure 4). Throughout the 1990s, with the exception the Philippines and at the time of the 1997 financial crisis, Indonesia, Malaysia and Thailand were consistently growing at rates greater than their respective Consumer Price Indexes, otherwise known as inflation. The high growth rates, coupled with relatively low inflation clearly indicate that all three countries experienced economic expansions. Inflation for the LDCs during the same period was higher than their ASEAN counterparts – particularly early in the

decade (Figure 4). Vietnam and Cambodia, for example, were both experiencing hyperinflationary rates of more than 50 percent. For Lao PDR, inflation was relatively steady until the onset of the 1997 financial crisis. Inflation for Myanmar oscillated between 20 to 35 percent.

3.2.1 ASEAN4

Of the four countries in ASEAN4, the only country where inflation outstripped economic growth was the Philippines, driven by recession and low agricultural production resulting from poor weather. In 1990 and 1991, inflation was well above 10 percent while growth rates languished at 3 percent or less (see Figure 1 and Figure 3). Signs of economic recovery first emerged in 1992 when the Philippine economy grew faster and inflation declined. For the next four years, the country experienced steady consumer price index rises of 7 to 8.5 percent. In the second half of the decade, due to reasons that included the regional crisis and agricultural production fluctuations, inflation moved between around 9 and 6 percent. In 2000, following improved economic prospects over a two-year period, GDP growth exceeded inflation for the first time in ten years.

Figure 3: Consumer Price Index (ASEAN4)



The CPIs in Malaysia and Thailand were consistently lower than economic growth during the 1990s. Prior to the 1997 financial crisis, economic growth in both countries was 2 to 3 times higher than inflation. In Malaysia, inflation was relatively steady at around 3.5 percent. In Thailand, between 1993 and 1998, inflation rose, due largely to weakening economic conditions which were considered later by many as signs of the imminent economic crisis. While the financial crisis first developed in 1997, it was not till a year later that a rise in inflation occurred in both countries, and at the same time, both experienced their highest inflation in over a decade.

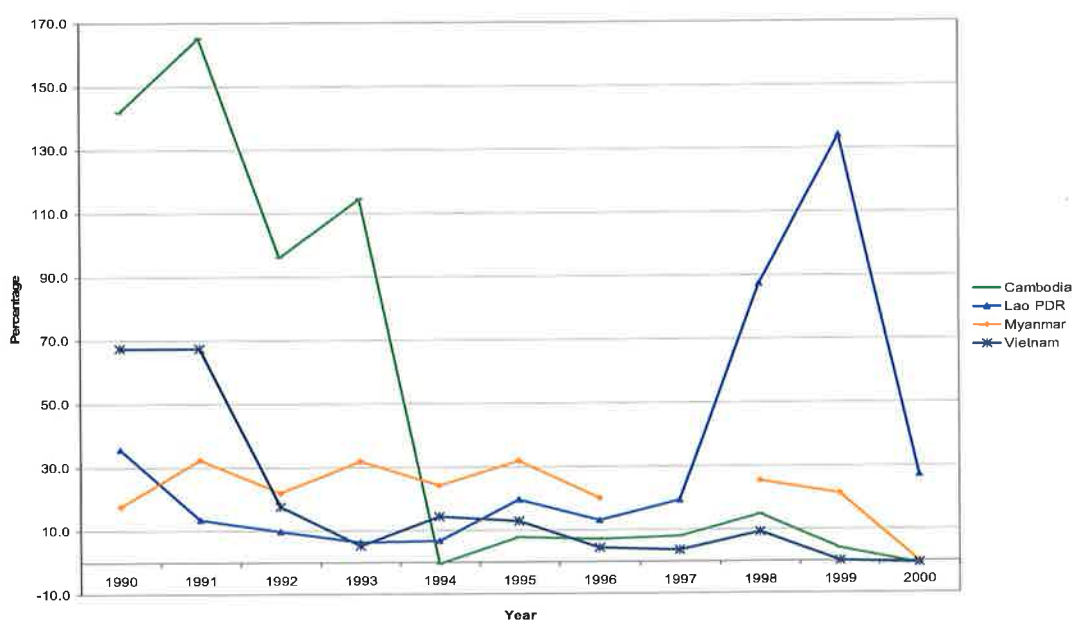
In contrast, the rise in inflation in Indonesia during the first half of the 1990s was similar to the pace of its economic growth (see Figure 1 for growth; Figure 3 for inflation). Until 1997, Indonesia's CPI fluctuated between 6.5 and 9.5 percent. When Thailand's economic malaise reached Indonesia, the economy collapsed within months. The crisis saw the Indonesian currency, the Rupiah, depreciate by around 80 percent and the CPI soar to hyperinflationary rates of 58.5 and 20.4 percent in 1998 and 1999 respectively. The weakened currency combined with high inflation meant that prices on goods and services including basic necessities, such as food all rose thus weakening purchasing power. As a consequence, the number of people living below the poverty line increased (Stiglitz, 2002). In 1999, the Indonesian economy stabilised with growth at 5 percent and inflation around 4 percent.

3.2.2 Least Developed Countries

As a group, the LDCs countries not only recorded higher rates of inflation compared to the ASEAN4, but they were also subject to greater fluctuations. The CPI (see Figure 4) were high for all four at the beginning of the decade, particularly for Vietnam and Cambodia which exceeded 70 and 140 percent respectively. The rate for Lao PDR was 35 percent while Myanmar had the lowest rate, a still high of 18 percent. However, unlike Vietnam, Cambodia and Lao PDR where their respectively CPIs have at

times dropped below 10 percent, Myanmar's inflation never fell below 10 percent throughout the 1990s. Instead, it was consistently above 17 percent after 1990 and until 1996 it oscillated between 20 to 32 percent. The precarious political environment was and remains today, a deterrent to foreign investment, but with China as Myanmar's largest investor, it appears the lack of foreign interest has been offset. As one of the least developed and least regionally integrated countries among the LDCs, the economy was also shielded from the 1997 crisis. While Cambodia, Vietnam and Lao PDR experienced a drop in economic growth and increased inflation in 1998, Myanmar's economic growth was approximately 6 percent and inflation was declining.

Figure 4: Consumer Price Index (LDCs)



Heading into the 1990s, both the Cambodian and Vietnamese economies were in hyperinflation, but for Cambodia, renewed political stability played a major role in its recovery. Political uncertainty affects inflation in a manner akin to the effects on GDP growth. At times of perceived stability, like the signing of the Peace Accord in the 1991, inflation – while high – declined sharply from over 160 percent to around 95 percent in 1992. Similarly, in the year following the 1993 inaugural democratic federal election, inflation along with high economic growth, also improved significantly, falling to

below 10 percent. Between 1994 and 1997, inflation remained below 10 percent. In contrast, the two years (1993 and 1997) where political uncertainties emerged, inflation rates like growth were affected. In 1993, an increase in inflation coincided with the uncertainties that surrounded the elections. In 1998, economic growth fell to below 4 percent while inflation rose to almost 15 percent, after the ousting of the then co-Prime Minister Prince Norodom Ranariddh and the subsequent political violence that broke out.

Inflation in Vietnam, as in Cambodia, also fell significantly in the early 1990s (between 1990 and 1993), from the hyperinflationary rates of 68 percent in 1990 and 1991 to 5.2 percent in 1993. The improved inflationary conditions coincided with better GDP growth. However, while GDP continued to grow at around 8 to 9 percent for the next four years, the Consumer Price Index rose to above 10 percent in 1994 and 1995 before falling to around 4 percent in 1996 and 1997. When financial crisis reached Vietnam, along with a slightly slower growth rate, inflation rose to 9.2 percent in 1998, only to almost disappear in 1999 and evolve into deflation in 2000.

With the exception of 1992, 1993 and 1994, inflation in the Laotian economy in the 1990s was above 13 percent. Again, the three years of relatively low inflation coincided with high growth. Since 1995, however, due largely to a depreciating currency and poor fiscal and monetary discipline, inflation again increased. Flooding and the regional crisis in the late 1990s also put significant inflationary pressures on the Lao PDR economy. Inflation fluctuated from 13 percent in 1996 to hyperinflation in 1998 and 1999 when rates rose to 87.4 and 134 percent respectively.

3.3 Unemployment

A comparison of unemployment Figures among the eight countries indicates that the ASEAN4 countries as a group out-performed the LDCs group (See Figure 5 and Figure 6).

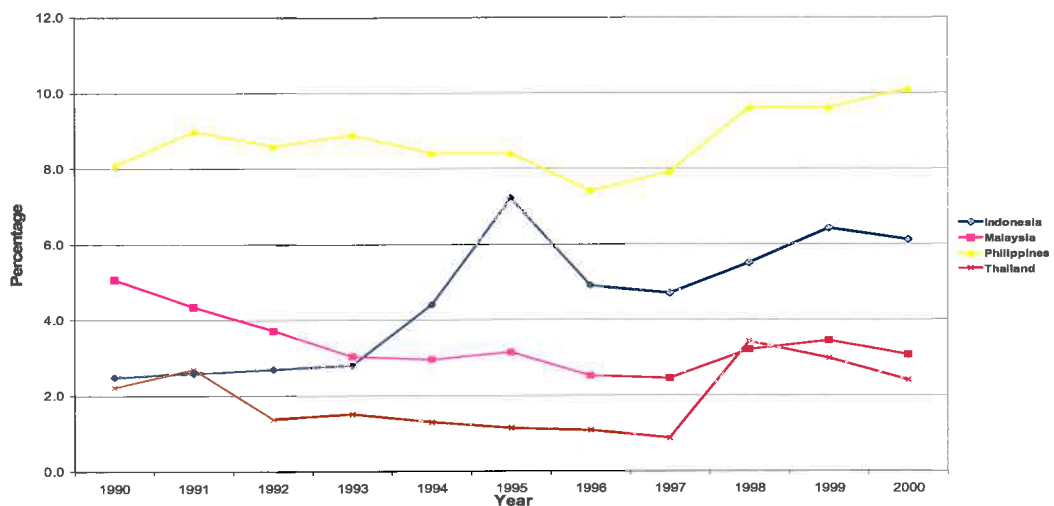
3.3.1 ASEAN4

Along with relatively high growth, three of the four countries – Malaysia, Thailand and Indonesia – also had low unemployment in the 1990s (See Figure 5). ADB data indicate that Malaysia and Thailand had the lowest and declining rates until 1998. In fact, prior to the financial crisis, the unemployment rate in Malaysia and Thailand was consistently below 3 and 1.5 percent. Unemployment for both countries, however, did increase because of the financial crisis, especially in Thailand.

Through the 1990s, unemployment in Indonesia had been less stable and was rising. Unemployment in the early 1990s was under 3 percent, but between 1993 and 1995 it rose significantly and peaked at 7.2 percent – a time that coincided with the country's highest growth and inflation. In the two years preceding the financial crisis, unemployment returned to lower levels – under 5 percent – only to rise once more to over 6 percent in 1999 and 2000.

The Philippines, being the exception in the ASEAN4 group, not only had lower economic growth, it also had the highest rate of unemployment. For most part of the 1990s, unemployment in the Philippines was above 8 percent. As the economy emerged from recession in the early 1990s, economic growth appears to fuel employment. This is before unemployment resuming higher levels in 1998 as a result of, firstly, the Asian financial crisis and secondly, adverse weather conditions caused by the El Nino effect (See Figure 5).

Figure 5: Unemployment Rate (ASEAN4)

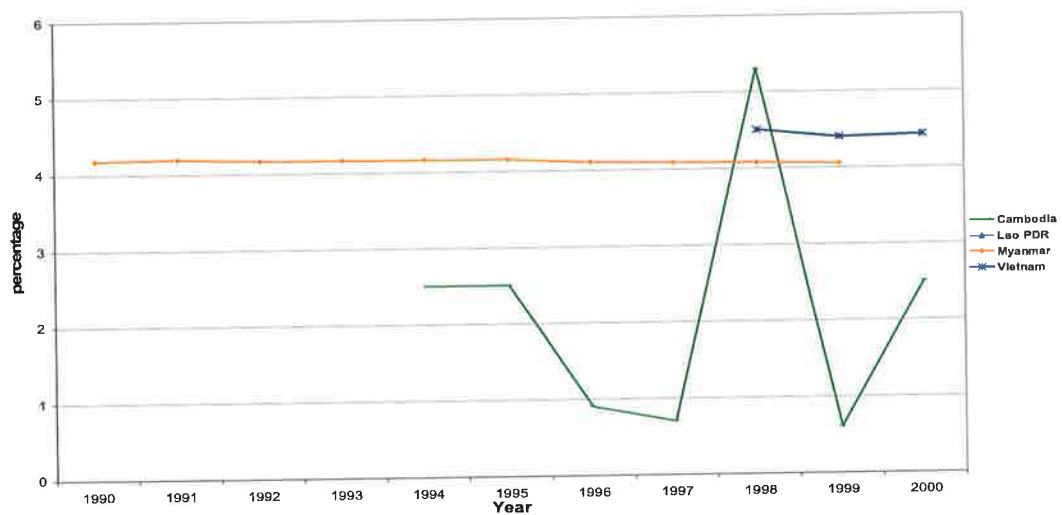


3.3.2 Least Developed Countries

Among the four countries in this group, the nature of Myanmar's unemployment figures throughout the 1990s were consistently around 4.1 to 4.2 percent. Even during times of political tensions such as the year after the failure by the military to hand over power to the democratically elected government in 1990 implausibly failed to affect employment figures. This alleged stability was despite declining foreign interest, a contraction of the economy and an increase in inflation.

Available ADB unemployment figures for both Cambodia (1994 onwards) and Vietnam (since 1998) are limited and completely unavailable for Laos. For Cambodia, there are no statistics on unemployment for the years 1990 to 1993, while official unemployment figures, with the exception of 1998, remained low between 1994 and 2000 (2.5 percent or lower). Unemployment reportedly rose to 5.3 percent in 1998, possibly caused by the political instability of 1997 and the suspension of foreign aid. Data for unemployment in Vietnam was also unavailable for the period 1990 to 1996. ADB data showed that between 1997 and 2000, Vietnamese unemployment was around 7 percent. However, the available figures are only for such a short period, it is difficult to determine trends and accuracy for either country.

Figure 6: Unemployment Rate (LDCs)



3.4 Trade Balance

The trade balance of the ASEAN4 group is significantly different from the LDCs. Firstly, the value of trade or trade activities is significantly larger in the ASEAN4 group. Secondly, for much of the 1990s, the LDCs had trade deficits (see Figure 10) while countries in the ASEAN4 grouping had mixed results (see Figure 7). Indonesia and Malaysia both experienced trade surpluses, Thailand and the Philippines up until 1997 and 1998 were respectively in deficit (Figure 7).

3.4.1 ASEAN4

Both Indonesia and Malaysia had trade surpluses throughout the 1990s, while Thailand and the Philippines had deficits till 1997 and 1998 (See Figure 7). Trade balances in Thailand and the Philippines have since moved into surplus. The regional crisis appeared to have affected trade in all four countries, slowing demands for merchandise imports (see Figure 9). The result was a change in trade balance to surplus for both Thailand and the Philippines, and larger trade surpluses for both Indonesia and Malaysia.

Figure 7: Balance of Trade, USD (ASEAN4)

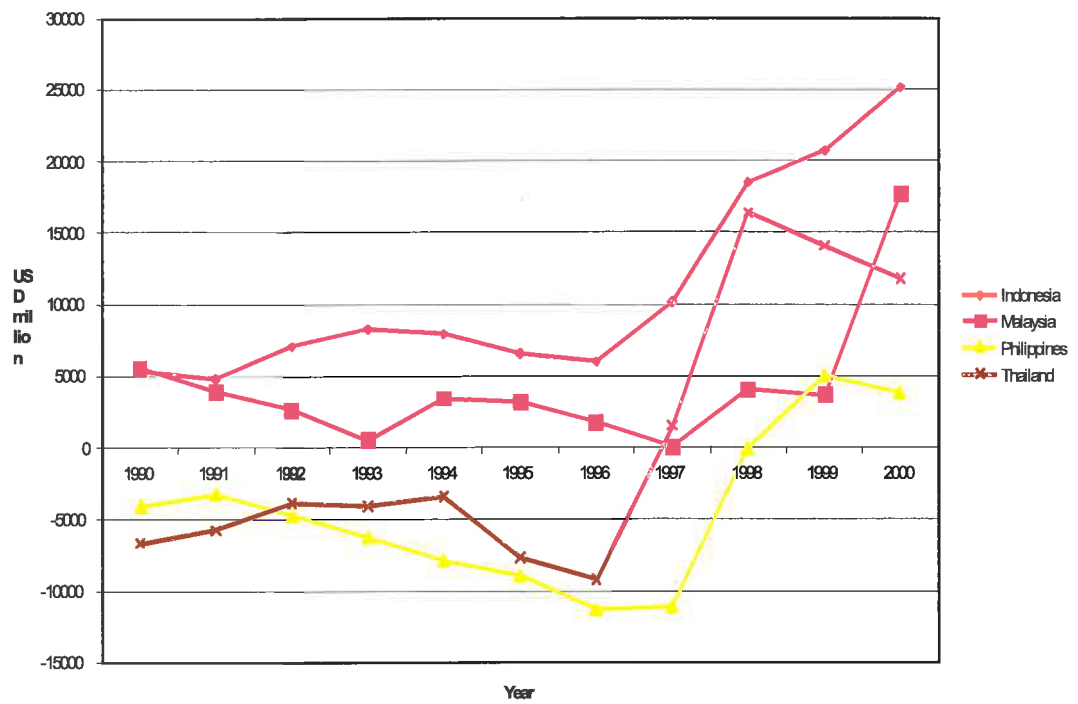


Figure 8: Merchandise Exports, USD (ASEAN4)

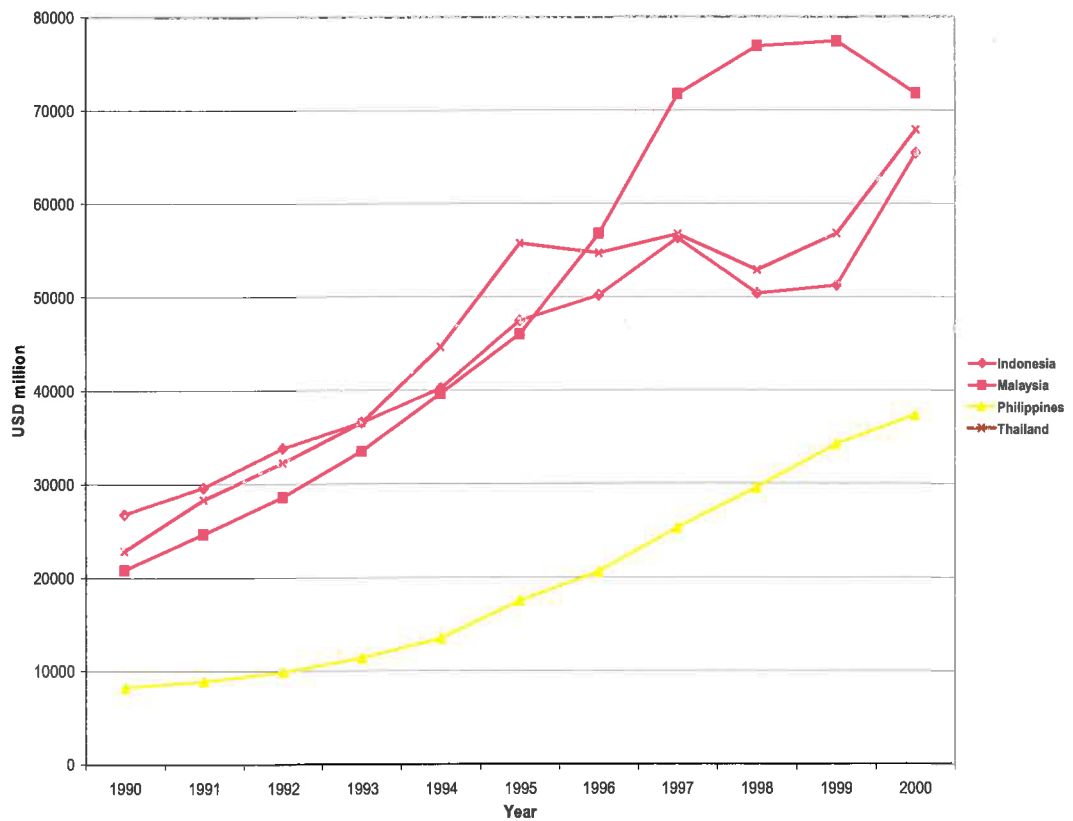
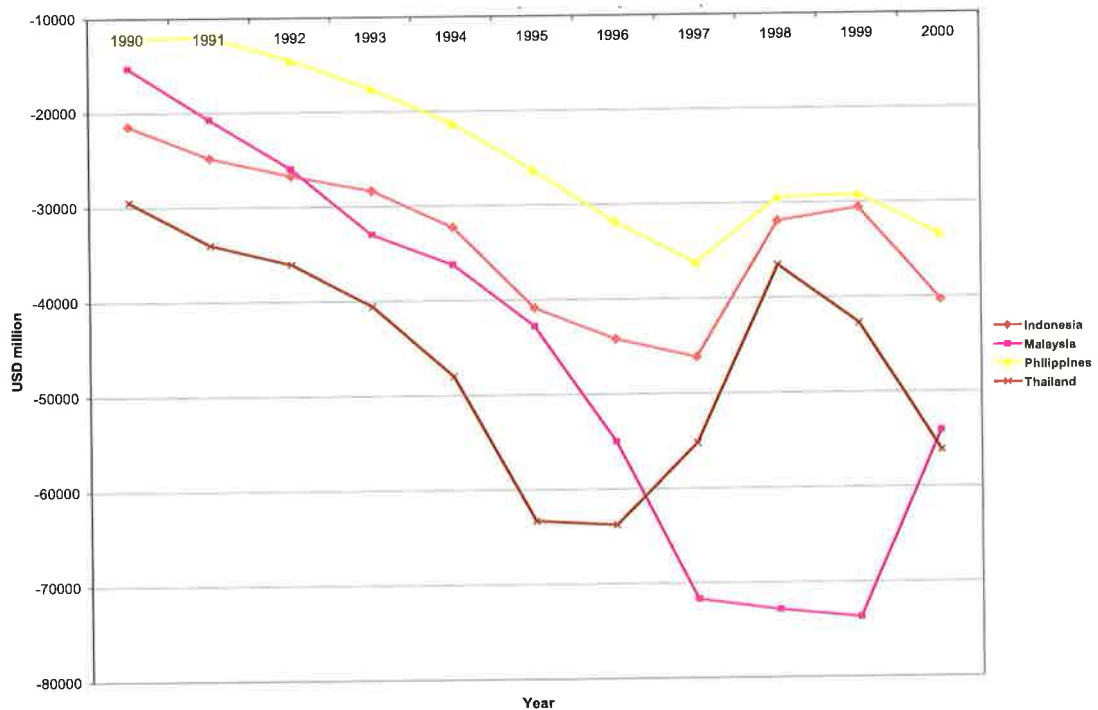


Figure 9: Merchandise Imports, USD (LDCs)



During the 1990s (until 1997), Thailand had a fluctuating trade balance. The outbreak of the financial crisis in 1997 led to significant changes in the balance of imports and exports. Poor domestic and foreign investment confidence, weakened private consumption of imported goods and a weak Baht led the country's balance of trade into a surplus for the first time in 1997 (Figure 7). Figure 9 clearly reflects how the value of merchandise imports declined considerably in 1997 and 1998 – 13 percent in 1997 and 34 percent the following year. On the other hand, merchandise exports (see Figure 8), only dropped slightly in 1997 (2 percent) before resuming at higher growth levels.

For much of the 1990s, the Philippines also had a trade deficit, a deficit which has increased steadily since 1990 from around \$4,000 million to a high of \$11,342 million in 1996. However, the regional crisis reduced the levels of imports (Figure 9) while merchandise exports expanded (Figure 8). The result was a contraction of trade deficit in 1997 and 1998, and a trade balance in surplus for the first time in the 1990s in 1999.

Both Malaysia and Indonesia, in contrast, sustained trade surpluses throughout the decade of interest to us. In Indonesia, the growth of both merchandise exports and imports annually was around \$2000-3000 million per year. However, the value of exports and its growth between 1990 and 1993 were larger and quicker than it was consuming imports (see Figures 8 and 9). As a result, its trade surplus expanded the first three years of the 1990s. Between 1993 and 1996, quicker import growth fuelled by robust private consumption and investment demand, a fall in trade surplus was experienced. The financial crisis initially dampened both exports and imports levels with a decline in value of both in 1998. Merchandise exports quickly recovered the following year while import levels continued to decline. As a result, the trade surplus after 1997 grew substantially from \$10,074 million to \$25,041 million in 2000 (See Figure 7).

The Malaysian trade balance in the 1990s, like Indonesia, was in surplus, albeit a fluctuating one. Between 1990 and 1993, it shrank from \$5,546 million to \$527 million, but returned to a larger surplus in 1994 of \$3,410 million. This was short-lived. By 1997, Malaysia's trade surplus reached its lowest, a mere \$6 million, but rebounded over the following three years (see Figure 7). The total value of both imports and exports also expanded considerably (see Figure 8 and Figure 9).

3.4.2 Least Developed Countries

Throughout the 1990s, the balance of trade for the countries in this group – with the exception of Vietnam toward the end of the 1990s – were in deficit (See Figure 10). Yet, having only begun its industrialization process and participation in the world economy in the last 10 to 15 years, it is surprising that the trade balance for all four agrarian societies were in deficits. Vietnam had the largest deficit followed by Myanmar, then Cambodia and Lao PDR.

Figure 10: Balance of Trade (LDCs)

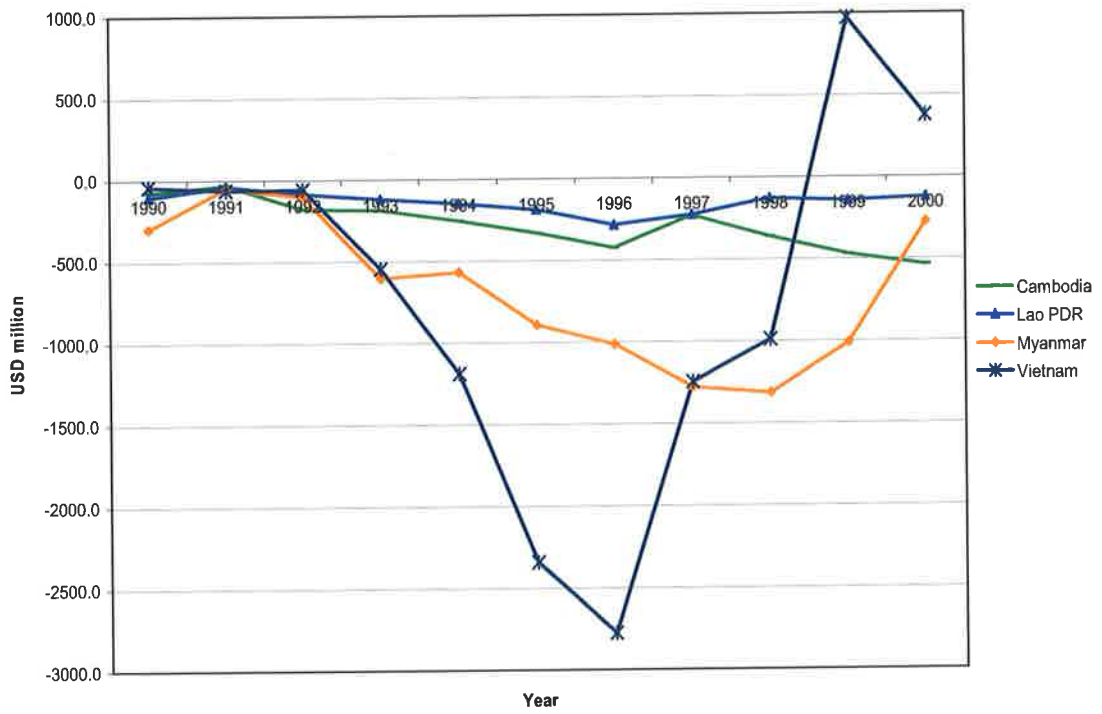


Figure 11: Merchandise Export, USD (ASEAN4)

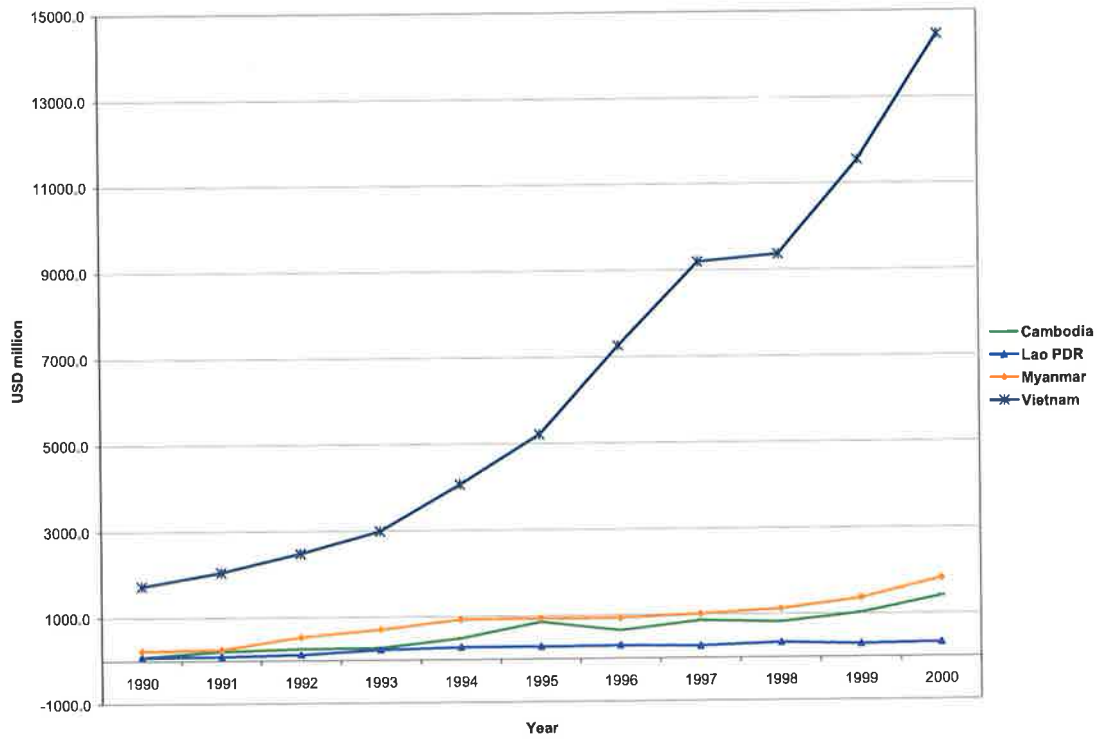
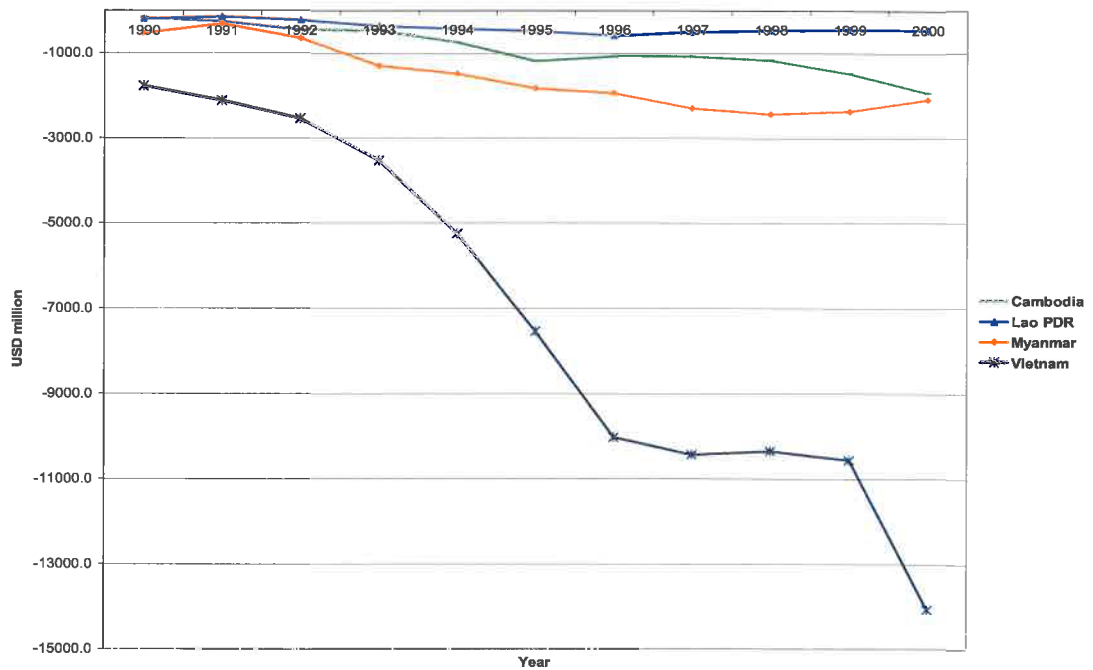


Figure 12: Merchandise Imports, USD (LDCs)



Trade activity and the value of trade in Vietnam expanded the most out of the four LDCs. This correlates with the high economic growth prior to the financial crisis. Between 1992 and 1996, industry sector and economic reforms led to high levels of domestic and foreign investment and an increase in trade. During these four years, however, merchandise imports (Figure 12) were larger than exports (Figure 11). As a result, the size of the trade deficit increased from \$41 million in 1992 to \$2775 million in 1996. From 1997 onwards, a weaker Vietnamese currency and the subsequent higher price, along with quicker export growth meant, that the trade deficit contracted in 1997 and 1998. By 1999-2000, the Vietnamese economy experienced trade surpluses for the first time.

The second largest trade deficit in this group belongs to Myanmar. Throughout the 1990s, its balance of trade was in an expanding deficit. Unlike the consistent growth of both import and exports till 1998, merchandise imports in 1999 and 2000 fell while merchandise export output continued to expand, and more rapidly. As a result, the trade deficit decreased.

Lao PDR and Cambodia in the 1990s recorded the smallest trade deficits. Throughout 1990s, their imports exceeded exports. From 1990 through to 1996, the Laotian economy produced a growing deficit (See Figure 10). The largest deficit \$286 million, occurred in 1996, but after 1997, merchandise imports declined and exports growth slowed. This led to an overall contraction of trade deficit. In contrast to Laos, the end of Cambodia's civil war marked the beginning of an era promoting economic policies aimed at becoming more outward and export oriented. Subsequently, both trade activity and the value of trade has increased steadily since 1990. From Figures 11 and 12, we can see that both imports and exports grew from virtually zero to approximately \$2000 million and \$1500 million respectively. As the consumption of imports was greater than exports (with the exception of 1997) the trade deficit also increased. According to Tech Siek Ngorn from Cambodia's Ministry of Economy and Finance, this is attributable to the current structure of the economy; i.e. an agrarian society that relies heavily on imports of resources to meet the demands of investments and private consumption (Ngorn, 2001).

3.5 Current Account

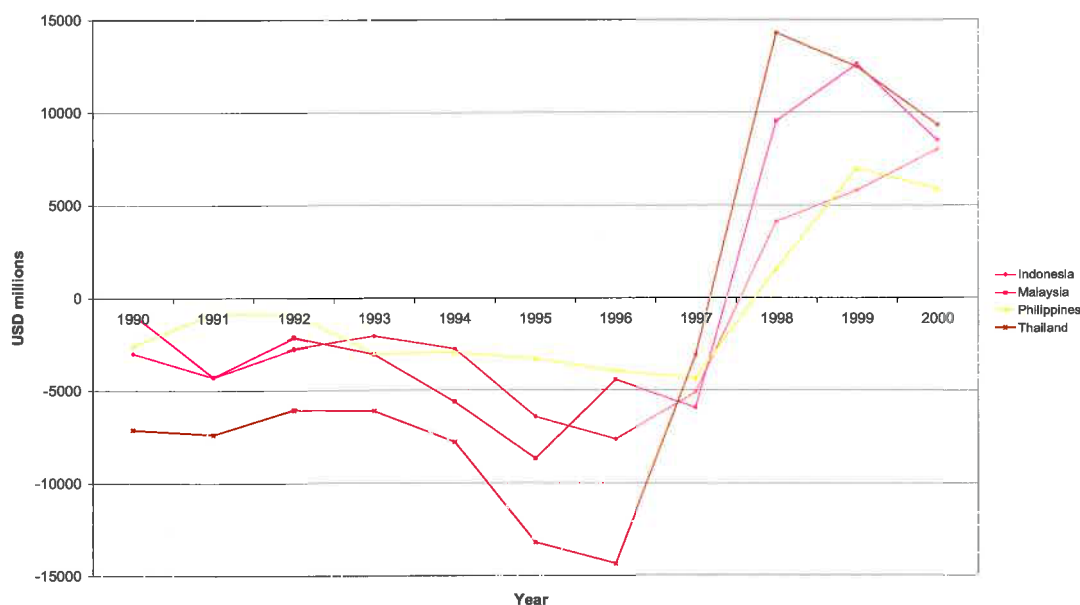
The balance of current accounts – 'the sum of the balance of goods and services, net income and net unrequited transfers' (Jackson et al., 1998) – between the two groups is different for reasons similar to those given for the balance of trade. The current accounts, whether in deficit or in surplus, are much larger in value among the ASEAN4 countries than the LDCs (see Figure 13 and Figure 12). In view of this, the current account deficits of most of the eight countries are not considered 'bad' for their development. In fact, the majority had high rates of economic growth alongside their current account deficits. This situation conforms with Appleyard et al., who believe that economic growth and development can at times be indicated by growth in current account deficits (Appleyard et al, 1998: 411-412). Such deficits can be 'safe' and are part of a developing country's economic development. However, whether deficits are positive depends on factors such as stage of development, level of

investments and how such investment capital is utilised to aid development, net capital account, rate of savings thus level of consumption of goods and services etc (Economist, 1995: 68-69). In the case of Southeast Asia, particularly Malaysia, Thailand and Indonesia, substantial foreign investment led to capital account surpluses. Much of these surpluses were associated with long-term investments in manufacturing, promoting industrialisation and economic growth (Economist, 1995: 68-69).

3.5.1 ASEAN-4

The current account deficits of the ASEAN4, along with their high levels of growth, support the idea that deficits can be positive. They complement this deficit with low unemployment and relatively low inflation despite having current account deficits prior to 1997. The crisis resulted in changes to surpluses (see on Figure 13). Overall, it appears that the four experienced similar current account deficits trends between 1990 and 1996, deficits that quickly changed into surpluses after the 1997 financial crisis.

Figure 13: Current Account Balance (ASEAN4)



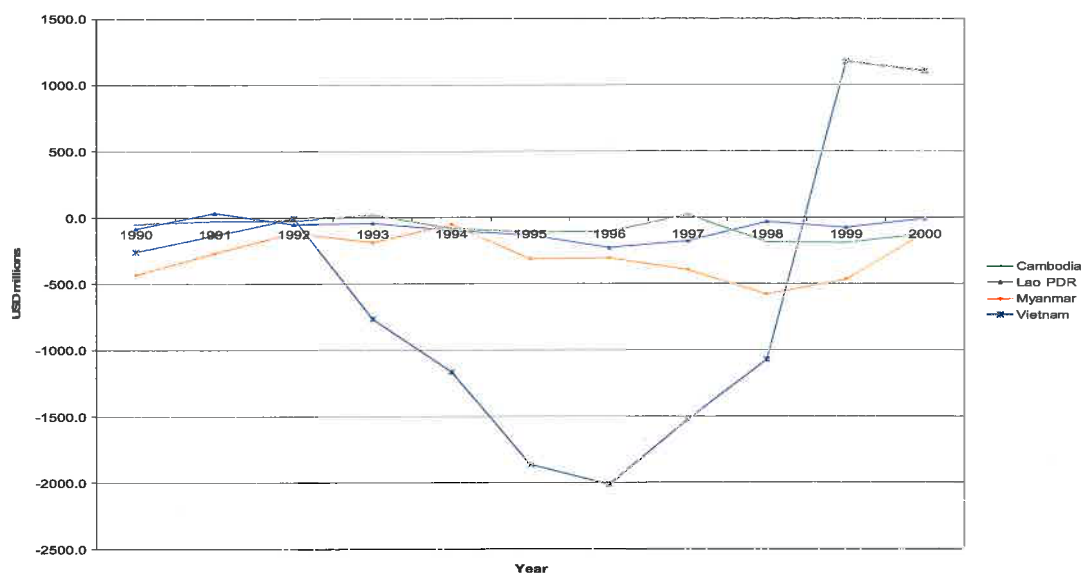
The growing deficits between 1990 and 1996 experienced by Malaysia, Indonesia and Thailand, and between 1993 and 1996 for the Philippines – as mentioned earlier – were all accompanied by high or relatively high economic growth. High levels of foreign investments flowing to these countries led to current account deficit associated capital account surpluses, which as explained previously, can be important to country's development. Secondly, as these countries develop and as their per capita income levels rises, spending and consumption on both imports and domestic goods and services are expected to increase. As the demand for imports rises, it will in turn change both the trade balance and current account balance. In some cases, this will mean a rise in trade and current account deficits, in others a drop in surpluses.

Among the ASEAN4, Thailand recorded the largest current account deficit prior to 1997 and the largest surplus post-crisis (see Figure 13). In the first half of the 1990s, the deficit was relatively steady at around \$6,100 million to \$7,800 million, but grew considerably in 1995 and 1996. In 1997, however, the financial crisis resulted in a huge reduction of the deficit (\$14,350 million in deficit to \$3,110 million). This was followed in 1998 by a change in the current account standing to a surplus; due largely to falling imports levels when exports remained steady. Looking at Figure 13, it can be also deduced that the pattern of current account fluctuations for Malaysia and Indonesia are similar to Thailand's fluctuations. The deficits for both countries, however, are smaller (by approximately \$10,000 million). The Philippines, on the other hand, experienced fewer fluctuations, and instead its current account deficit grew consistently between 1993 and 1997. This period coincided with the recovery from an earlier recession.

3.5.2 Least Developed Countries

Cambodia, Lao PDR and Myanmar had for most of the 1990s, relatively small current account deficits (Figure 14), especially compared to their ASEAN4 counterparts.

Figure 14: Current Account Balance (LDCs)



Vietnam's current account balance after 1992 was much larger and grew at a quicker rate than the other three LDCs. The period of widening deficits between 1992 and 1996 (peaking at \$2,000 million in 1996) coincided with a period of high economic growth, expanding exports and imports (trade balance), and increased foreign direct investments. From 1996 onwards, as economic activity slowed, the size of the current account deficit also decreased and turned into a growing surplus in 1998.

The current account deficits of Lao PDR and Cambodia are much smaller, consistently below \$200 million. In Cambodia, there were two years, 1993 and 1997, during which the current account was in surplus. They were due to largely political uncertainty and instability experienced in those two years, resulting respectively from the tensions and uncertainty surrounding the country's first democratic

election and the disintegration of the already shaky government coalition which subsequently broke into violence. For Laos, the surplus was in the early 1990s. Similarly in Myanmar the economy had a current account deficit throughout the 1990s, declining between 1990 and 1994 (see Figure 14) and then widening between 1995 and 1998, before again declining deficits between 1998 and 2000. During this time, all three countries experienced relatively high growth, increased trade and growing levels of FDIs. In summary, it is evident that the running current account deficits of the ASEAN4 and LDCs expanded alongside economic development, thus is in agreement with the view that a current account deficit can be beneficial to a country's development.

3.6 Gross Domestic Investment

It is increasingly evident that gross domestic investments (GDI) play a significant role in a country's economy.³⁶ Essentially, GDI measures the abilities of domestic producers within of an economy to acquire assets including non-produced ones. This acquisition is seen as beneficial for long-term and sustainable economic development. In the short-term, it also helps fuel economic growth as it makes up a significant percentage of GDP. What is also apparent among the ASEAN4 countries is that GDI was usually higher when economic growth was high.

3.6.1 ASEAN4

The GDI in three of the ASEAN4 – the Philippines again being the exception – made up more than 30 percent of GDP (see Figure 15). In Thailand and Malaysia, GDI made up more than 40 percent of GDP between 1990 and 1996, and 1994 and 1997 respectively, indicating the role it now played in the development of both countries, as well as the increased capability of domestic producers to help

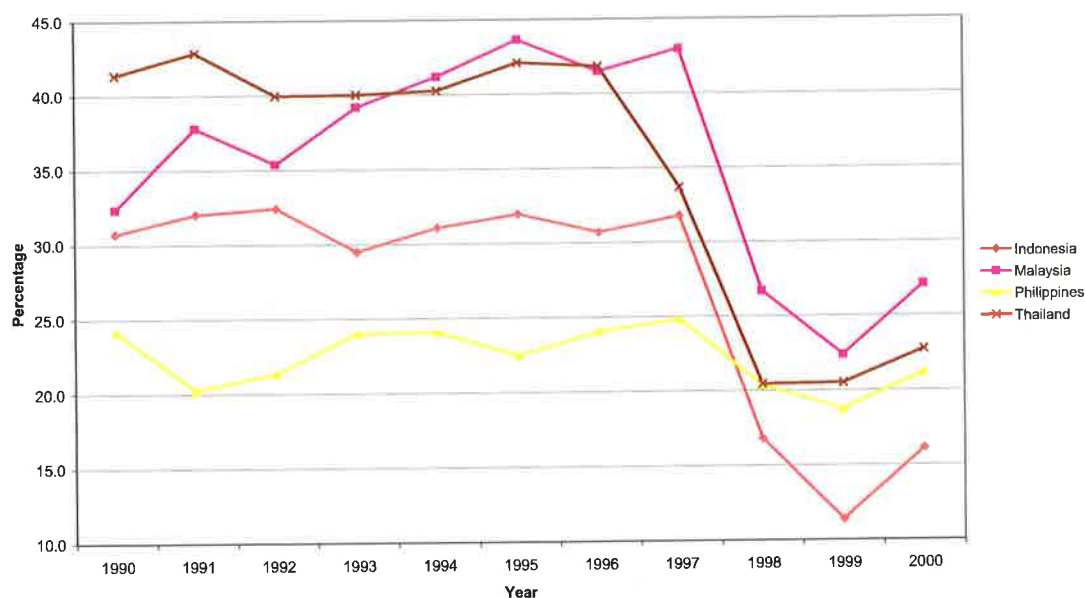
³⁶ Also sometime known as the gross domestic capital formation, GDI, is defined as the "sum of gross fixed capital formation plus changes in inventories", in which gross fixed capital formation "is measured by the total value of a producer's acquisitions, less disposal, of assets in a given accounting period. Additions to the value of nonproduced assets, eg., land form part of the gross fixed capital formation. Inventories are stock of goods held by institutional units to meet temporary fluctuations or unexpected fluctuations of production and sales." (Asian Development Outlook 2004; online accessed: www.adb.org)

fund local investment. While domestic investment levels, as a percentage of GDP, were lower in Indonesia compared to Malaysia and Thailand, it nevertheless featured significantly in the country's growth, comprising of 30 percent or more for much of the 1990s. In contrast, GDI in the Philippines was the lowest of the four countries, around 20-25 percent of GDP, again reflecting lower growth.

Since the signing of Plaza Accord in 1985³⁷ and the liberalisation of foreign investment policies in the late 1980s, particularly in relation to FDI, there has been a substantial increase of foreign investment into Malaysia and Thailand. This led to the rapid and more sustainable development of both countries in the late 1980s and early 1990s. In contrast, Indonesia and the Philippines restricted foreign investment and as a consequence the opportunities for either country to attract FDI were fewer and slower economic development vis-à-vis Malaysia and Thailand. For both of the latter, being more advanced led to a more developed domestic industry sector with the capacity to generate capital and use the knowledge and technology gained from foreign investors to reinvest in the domestic economy. A recent UNCTAD paper suggests that the use of FDI, coupled with the protectionist 'Infant Industry Policy' allowed many domestic industries in Asia to develop and become competitive quickly in global markets. Utilising their comparative advantage of abundance in resources, such as cheaper labour, countries in Asia were able to attract FDI to fuel economic development and to generate capital while protecting domestic industries. A dual economy resulted in which economic development was aided by foreign interests, yet at the same time the same foreign interest had limited access to the domestic economy. This has subsequently led to increases in overall human capital as well as the capacity for domestic producers to accumulate capital in Asia (Divison on Globalization and Development Strategies [UNCTAD], 2004).

³⁷ The Plaza Accord, signed on September 22 1985 is an agreement among Ministers of Finance and Central Bank Governors of France, Germany, Japan, the United Kingdom, and the United States (G5) to implement a coordinated program to weaken the US Dollar, which had reached an all time high relative to the following major currencies by 1985. As a result the US was suffering from a large trade deficit. The US dollar, over two years, depreciated by 30 percent.

Figure 15: Gross Domestic Investment, % of GDP (ASEAN4)

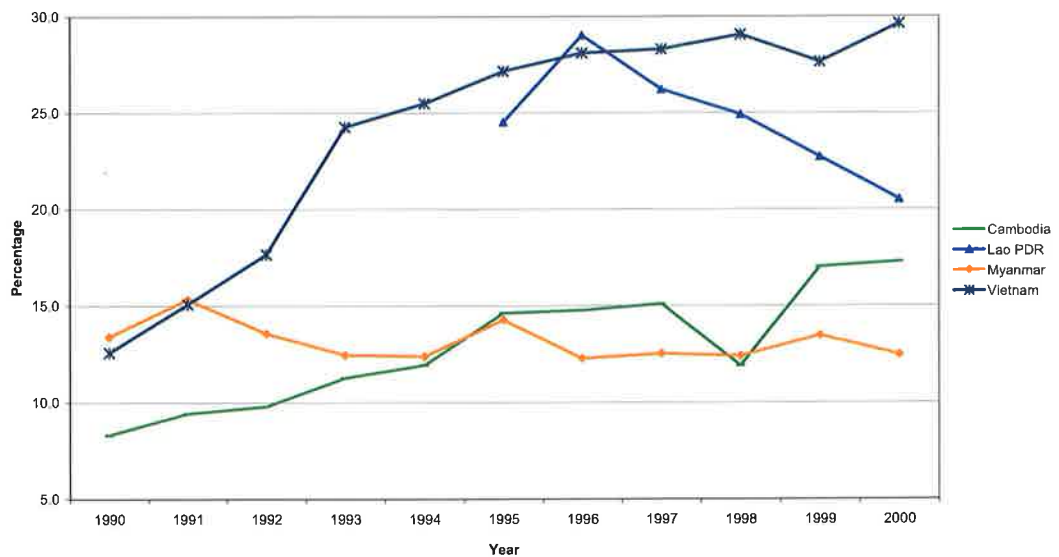


3.6.2 Least Developed Countries

In contrast with the ASEAN4, GDI on average were much lower among the LDCs compared to the ASEAN4. At their lower stages of development, it is not surprising that the LDCs' GDI would be much lower. Figure 16 clearly shows that GDI for the four LDCs was consistently below 30 percent of GDP in the 1990s.

Akin to the ASEAN4s, economic growth in Vietnam coincided with the increasing role of FDI. Alongside (or to be accurate slightly lagging) the growth of foreign investment, there has been growth in GDI levels, i.e. from accounting 12.6 percent of GDP in 1990, GDI in Vietnam has increased to almost 30 percent of GDP. In a more stable Lao PDR where the relatively small economy was more open than Cambodia and Myanmar, FDI and GDI levels flourished. By 1996, GDI accounted for 29 percent of GDP. Since the 1997 crisis, however, Lao GDI had dropped considerably, to 20 percent of GDP by 2000 (Figure 16).

Figure 16: Gross Domestic Investment, % of GDP (LDCs)



In contrast to Laos and Vietnam, GDI in Cambodia and Myanmar was much lower, at less than 20 percent of GDP. With the exception of 1998, notable for its political instability, Cambodia did, however, experience increases of GDI throughout the 1990s. Meanwhile, GDI patterns in Myanmar were less stable and little growth occurred. In fact, GDI levels as a percentage of GDP were higher in 1991 than at the end of the 1990s. Can we conclude then that for three out of the four LDCs, the growing participation of domestic producers or increasing GDI were signs of economic prosperity? Are there signs that these countries were gaining capacity and knowledge toward sustainable economic development?

3.7 Foreign Direct Investments

Foreign Direct Investments play a significant role in the development of Southeast Asia. As many developing countries often lack capital, particularly during the early stages of development, FDI is vital. Investments fuel increases in production, exports and human capital development. Ultimately, FDI-aided developments allow countries to generate their own capital, primarily through international trade, to further aid economic growth and development (Appleyard et al, 1998: 233-234).

3.7.1 ASEAN4

The intensity of foreign investment during the late-1980s and 1990s was crucial to the rapid economic development to Malaysia, Indonesia, Thailand and more recently, the Philippines. Export-oriented development driven by FDI was undoubtedly a major source of economic growth. In particular, the signing of the Plaza Accord in 1985 and the subsequent appreciation of the Japanese Yen and currencies of the NIEs (i.e. Taiwan, Singapore, South Korea and Hong Kong) resulted in a shift in the flow of FDI toward second-tier economies where production costs were lower. Malaysia and Thailand benefited most, both shifted away from agriculture toward industrialisation, such as manufacturing of processed foods (Thailand) and electronics (Malaysia) (Anderson et al, 2003). Malaysia, in particular (see Figure 17), continued to receive substantial foreign investment throughout the 1990s. In contrast, FDI gains after the Plaza Agreement were much less in Indonesia and the Philippines. Both had policies restricting foreign investment. They liberalised FDI control and later increased inward investment. For Indonesia, particularly since 1994, the more liberal stance resulted in a massive increase in FDI (approximately \$2000 million). In fact, from 1991 till 1998, FDI in Indonesia exceeded that of Thailand. In the Philippines, on the other hand, FDI levels increased only slowly and remained relatively steady throughout the 1990s (See Figure 17). The Philippines relative poor economic performance and investment environment were due to various reasons. The economy experienced two recessions, one in 1984-85 and another in the early 1990s (till 1994). There was significant political instability in the mid 1980s which saw the assassination of prominent politician, Benigno Aquino Jr., and the end of the Ferdinand Marcos era.³⁸ The return to democracy and reforms to the economy, including trade liberalisation, and government subsequently began in the mid-late 1980s (Medalla, 1998: 3-4). Prior to these government and economic reforms, under the dictatorship of Marcos, the Philippine economy was also a closed, largely agriculture-based

³⁸ Upon returning from exile, Benigno Aquino Jr., was assassinated. His assassination sparked massive protest known as the People Power Revolution of 1986. Corazon Aquino, his widow, assumed the reins of government in the aftermath of a hotly contested snap election. Marcos, his family, and along with some of his cronies were exiled to Hawaii. With the end of the Marcos dictatorship, a new constitution was adopted in 1987.

economy. While it is still largely agriculture-based (ADB, 1995), the reforms (since the Corazon Aquino Administration and continued by the Ramos Administration) despite the economy being hampered by a massive national debt, continual government corruption, coup attempts, a communist insurgency and Muslim separatist movements, there were some successes which resulted in sustained levels of economic growth and small increases of FDI

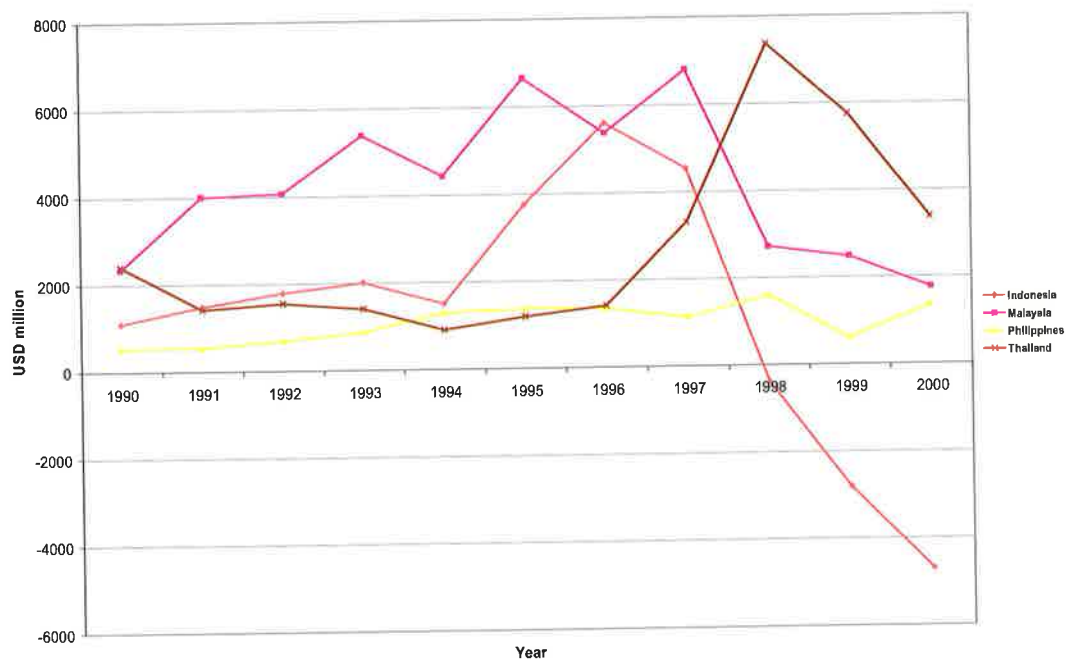
Thomsen (1999), however, argues that while FDI was and remained important to economic development to the ASEAN4, it did not promote sustainable development as government policies often restricted foreign investors access to local markets. Consequently FDI did not lead to substantial increase of 'indigenous capabilities' and there were few technology or know-how transfers. Thomsen believes past policies, particularly prior to the financial crisis, protected local economies from imports and from 'market-seeking inward investments', thus creating a dual economy – one that encouraged FDI to fuel economic growth, but also one that was highly protective of domestic industries (1999: 6).

The financial crisis and competition from China and Vietnam have resulted in the ASEAN4 governments liberalising access of foreign investment in their domestic markets. Granting this greater access is expected to not only allow locally owned industries to generate more capital, it is also expected to enhance indigenous capacities (i.e. increase human capita). This liberalisation also meant that during the financial crisis, there was no mass exodus of FDI from Thailand, Malaysia or the Philippines. Instead, in the case of Thailand, there was an increase in FDI in 1998 (Thomsen, 1999: 8).

Since the crisis, FDI was also widely regarded as the most resilient and safest of all foreign investments. Investment remained relatively steady in Malaysia, Thailand and the Philippines as the

decline of inward investments during the crisis were regarded as small (see Figure 17 also) (Thomsen, 1999: 8-9). Indonesia was the exception. It experienced a loss of FDI after 1998. The outbreak of political and social unrest/violence when the then government decided, on the advice of the IMF and against the warning of economists such as Stiglitz and Sachs³⁹, to scrap food subsidies, resulted in a dramatic fall in investor confidence and thus the withdrawal of significant amounts of FDI. Even a reversal easing some political and social tensions failed to stem the flight (Stiglitz, 2002: 119-120).

Figure 17: Foreign Direct Investment, USD (ASEAN4)



³⁹ Joseph Stiglitz, the then chief economist of the World Bank and Nobel Prize Winner in 2001 for Economics, and prominent economist Jeffrey Sachs, were among many economist who warned against the contractionary fiscal and monetary policies recommended by the International Monetary Fund upon the onset of and during the Asian Financial crisis. It is now widely acknowledged that such policies were wrong and led to the deepening of the crisis.

3.7.2 Least Developed Countries

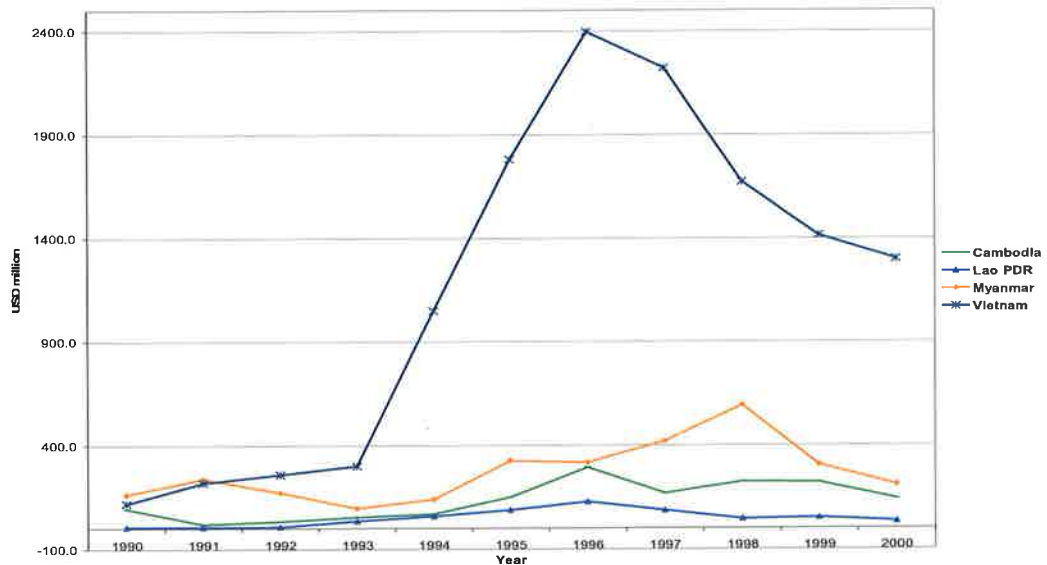
The LDCs' ability to attract FDI during the 1990s also lagged behind that of the ASEAN4. Unlike the ASEAN4s, the LDCs up until the late-1980s were closed economies. Since the late 1980s, they began to open up and by the beginning of the 1990s, inward investment for Vietnam, Cambodia and Myanmar was valued at around USD200 million each, and USD6 million for Laos (see Figure 18). These levels are small compared to the levels of USD500million plus which the ASEAN4s were attracting.

In the late 1980s, economic reforms undertaken by the LDCs which included the liberalisation of foreign investment policies resulted in increases in FDI. In Vietnam's case, the increase was most notable following its liberalisation in 1988 (Anderson, 2003: 4). The more liberal investment environment, along with Vietnam's comparative advantage of cheaper labour, resulted in an impressive increase of inward investments between 1993 and 1996. Vietnam, like China, became a major FDI destination. Since peaking at \$2,400 million in 1996, FDI performance has been less impressive, falling to under \$1,300 million by 2000. The largest drop in value of inward investments occurred with the financial crisis in 1997-98 (Figure 18).

Myanmar – surprisingly – for a country increasingly isolated from the world, recorded relatively high levels of FDI in the 1990s. In fact, there was a significant rise of inward investment from USD200million to about USD600million between 1993 and 1998. As mentioned earlier, it is widely believed that the sustained economic and FDI growth were fuelled by Chinese investments from both the government and private investors. After 1998, however, investment levels dropped to below \$300 million. In contrast, the growth of inward investment in Cambodia and Lao PDR was slower. Between 1990 and 1994, both countries had very similar levels (see Figure 18). Since 1996, both countries have experienced declines in levels of inward investment, largely the result of the financial

crisis – though indirectly through Thailand in the case of Lao PDR, as the country is dependent on Thai investment.

Figure 18: Foreign Direct Investment, USD (LDCs)



3.8 Discussion

Overall, the Southeast Asian economic development experience in the 1990s, prior to the financial crisis, is consistent with some aspects of neo-liberal theory. Outward export-oriented economic policies adopted by these countries – some earlier than others – and participation in the regional and world economy have helped yield the high growth rates, low unemployment, relatively low inflation, increasing levels of trade openness and volume of trade, and rising domestic and foreign investments levels in many of these countries. However, in relation to the central neo-liberal principle that an economy is most efficient when it is open and deregulated, there are some inconsistencies. Firstly, prior to the financial crisis, governments in East Asia were widely praised for the direct roles they played in guiding and facilitating economic growth and development. This subsequently blamed as a contributing factor once the crisis broke out. Most notable was the use of “industrial policies” or infant industry policies and trade protectionism by the governments of the ASEAN4 – namely

Malaysia and Thailand – alongside liberal foreign investment policies to develop and protect domestic industries. Secondly, the very deregulation of the financial and capital markets has since been identified as a major causal factor in the outbreak of the 1997 crisis and its rapid contagion effect in East Asia (Akyüz, 2000: 10). This result does not appear to support neo-liberal theory which purports a deregulated and open market economy is most efficient. In fact, the very liberalisation of financial and capital markets – especially insufficiently developed ones – became the apparent weakness of many East and Southeast Asian economies in 1997-98.

The analysis for the eight Southeast Asian countries in this chapter supports the contention that the ASEAN4 group is more open and developed than the LDCs. It is clear that Thailand, Malaysia and Indonesia in particular benefited from longer periods of economic openness and global integration. Despite the financial crisis which resulted in setbacks, particularly for Indonesia, the ASEAN4, with the exception of the Philippines, were still considered among the most successful and dynamic countries in the region, or at least of the eight examined. However, with increased integration, there is also a greater susceptibility to a regional economic shock, such as the one experienced in 1997. The countries worst affected by the financial crisis were among some of the most integrated – Thailand, Indonesia, and to a lesser extent Malaysia.

In contrast to the crisis-hit nations, the state of economic development in the LDCs – Vietnam, Myanmar, Lao PDR and Cambodia – was slower, primarily due to political instability and/or a lack of political independence. Their performance improved considerably in the 1990s, mainly as a result of improved political environments. For these countries, the end of political and civil instability meant that policies for economic development could be pursued for the first time. Sustained GDP growth, greater trade openness and increasing levels of domestic and more importantly foreign investments are among the evidence that progress in Lao PDR, Vietnam and Cambodia occurred in the 1990s.

Of the four countries in LDCs group, Cambodia and Myanmar continues to experience political instability. Cambodia remains susceptible to political uncertainty such as the one which surrounded the elections of 1993 and the 1997. The economy – particularly in the areas of GDP growth and investment – faltered but appeared to recover quickly once stability returned. Myanmar, on the other hand, remains in a state of constant political uncertainty and military dictatorship. While official Figures indicate high growth and low unemployment in the 1990s, Myanmar is under constant economic sanctions and continues to experience prolonged political instability. Future rapid and sustainable economic development is unlikely. There are three possible reasons behind this level of growth; firstly, being an economy that has not developed as quickly as its neighbours, activities that accounted to very little to the other nations becomes more important. Secondly, China's increasing role as a trading partner, and Chinese investment in infrastructure building over the last twenty years have allowed the country to develop despite sanctions and isolation from the West. Finally, like China, there has been increased trade with ASEAN, in particular Thailand and Singapore, throughout the 1990s. Through trade, Myanmar allowed integrate with the broader region and grew, again, albeit in isolation from the West.

In summary, this chapter has shown that Southeast Asia continued to develop economically, at least in coarse terms, at a rapid rate throughout the 1990s, particularly before the financial crisis. It is also clear that the ASEAN4 countries, having had greater level of stability over the last 30 years or so, are more advanced in their economic development, openness and integration to the regional and world economy. However, over the last 10-15 years, the end of political and civil tensions and greater political independence in the LDCs – Myanmar being the exception – have also resulted in relatively rapid economic development and increased participation in the regional and world economy. Having experienced substantial economic development, have these economic achievements led to social

and human development in Southeast Asia? The following chapter will examine the state of social development in these countries in the 1990s. The presence of social development, particularly in the areas of poverty alleviation, education and health should dispel the argument that there is race to the bottom. It is expected that there is no race due largely to the strategies/policies adopted by many of these countries to develop economically and therefore economic development has led to social development.

Chapter Four: Southeast Asia's Social Development (1990-2003)

Southeast Asia in the 1990s undoubtedly experienced rapid economic development, but did this translate into social progress? Was economic success achieved at the expense of social development as countries entered a 'race to the bottom' to attract FDI? Proponents of globalisation believe that economic development always produces social development. This should mean that the prolonged economic growth experienced by Malaysia, Thailand and Indonesia in particular, should have led to significant improvements in human and social development. Alternatively, according to the critics of globalisation, economic growth leads to a reduction in living standards. They argue that social development can occur even with little economic growth if state systems are in place. More importantly, they contend that government intervention to strategically allocate any gains from economic development is the only way to ensure the poor are not left behind. This chapter, therefore, will discuss the state of social development for each of the eight countries between 1990 and 2003. It will firstly examine the state of poverty and the state of human development using UNDP's Human Development Index.⁴⁰ Assessing the extent of poverty in each country will help us understand the proportion of income poor as well as the proportion of those who are deprived of

⁴⁰ While many of the UNDP's indicators – HDI, HPI-1, HPI-2, GDI – measures varying aspects of human development, they are based on the same dimensions: longevity, knowledge and a decent standard of living. In the case of HDI, longevity refers to life expectancy at birth, knowledge is based on adult literacy rates and the combined enrolment ratio, while a decent standard of living means the adjust income per capita in PPP US\$. HDI range from 0 – no human development – to 1 – perfect human development. Any countries with HDI below 0.500 are considered as countries with low human development, any countries between 0.500-0.790 are in the medium development category while any countries with HDI of 0.800 and above have high human development (UNDP's Human Development Report 2000).

some of the most basic necessities. The HDI aids in understanding each country's level of social or human development, particularly in three key areas of longevity, knowledge and a decent standard of living.

Although the HDI quantifies human development in some 170 countries, and measures their performance relative to each other (in terms of ranking), the HDI alone does not provide the comprehensive understanding of human development this thesis requires. The HDI serves as a guide by revealing, for example, that countries such as Malaysia and Thailand are categorised in the high human development group for most of the first half of the 1990s due to high life expectancy rates, adult literacy rates, school enrolments and high or relatively high income per capita. However, the index does not fully disclose the breakdown of the three individual key areas. Thus, proceeding from examining the state of poverty in each of the eight countries and their HDIs, this chapter then examines several key social indicators in the areas of education and health. In health, life expectancy at birth, infant mortality (both under the age of one and five), health expenditure (both total expenditure and government expenditure), percentage of fully immunised one year old children, percentage of routine Extended Programme of Immunisation (EPI) vaccines financed by government, percentage of pregnant women fully immunised against tetanus, percentage of population with access to adequate sanitation, and percentage of population with safe water are all assessed. As for education, both youth and adult literacy along with enrolment ratios for both primary and secondary educations and the proportion of population reaching grade five will be scrutinised. Gender equality in relation to these education indicators will also be part of this analysis.

4.1 Poverty

4.1.1 Percentage of population living with less than \$1 and \$2 a day (Absolute and Moderate Poverty)

Examining Southeast Asia's incidence of poverty and the rates of change if any is a good place to start in examining the region's social progress. Evidence of poverty reduction would indicate that steps have been made to improve living standards of lower socioeconomic groups. Indeed, data from the World Bank shows that absolute poverty, measured as percentage of population living with less than one dollar a day, has for most of the region, declined significantly since the late 1980s. The exceptions are Myanmar (no available data), Lao PDR and Cambodia where not only was little data available (1997), what was available reveals absolute poverty at 26 and 34 percent respectively. The incidence of absolute poverty in the remaining five countries is relatively low, or that have experienced significant reductions by 2002, i.e. absolute poverty figures were as low as 2 percent in Malaysia, Thailand and Vietnam (See Table 1).

Table 1: Percentage of Population living with less than \$1 a day (PPP)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
ASEAN4																
Indonesia	28.15	..	..	..	..	..	17.39	..	..	13.93	..	26.33	14.74	7.19	..	7.51
Malaysia	2	..	2	..	..	2	..	..	2	..	2	..	..	..	..	..
Philippines	..	18.2	..	..	19.77	..	..	18.36	..	..	14.4	..	..	15.48	..	..
Thailand	..	17.85	..	..	..	6.02	..	..	..	2.2	..	2	2.02	2	..	..
LDCs																
Cambodia	..	..	..	..	..	..	..	..	..	..	34.08	..	..	..	..	..
Lao PDR	..	..	..	..	..	7.75	..	..	..	..	26.33	..	..	..	..	..
Myanmar	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Vietnam	..	..	..	..	..	..	14.63	..	..	..	..	3.8	..	..	..	2

Source: World Bank

While absolute poverty is relatively low, many Southeast Asians remain living in moderate poverty, i.e. living between one and two dollars a day (See Table 2). This is clearly evident with World Bank Figures indicating that there are still as many as 50 percent of population in some countries classified as experiencing absolute or moderate poverty in 2000. In Indonesia, for example, while

absolute poverty dropped significantly (declined from 28.15 percent to less than 8 percent between 1987 and 2002), the number of people living in both moderate and absolute poverty combined, i.e. those living on less than \$2 a day, is greater than 50 percent of population. As a combined figure, the overall poverty incidence in Indonesia dropped from 76 percent to 52.4 percent between 1987 and 2002, but with much of the reduction occurring in absolute poverty, moderate poverty itself remained relatively high, around 45 percent.⁴¹ While there was an overall decline in poverty, it must be noted that the financial crisis in the late 1990s and more specifically the years of 1996 to 1998, resulted in increases of both absolute and moderate impoverishment in Indonesia. Absolute poverty in Indonesia increased from 14 percent to 26 percent. This clearly demonstrates the kind of impact an economic crisis can have on the poor. It is also likely that more progress in reducing poverty in Indonesia would have been made if it were not for the onset of the Asian financial crisis.

Nevertheless, the crisis seemed to have little effect on the Southeast Asian countries (except Indonesia), especially the ASEAN4 group and Vietnam. For the remaining three LDCs, Myanmar, Laos and Cambodia, it is difficult to say what kind of impact the crisis had on poverty: there is little or no poverty data available from the World Bank. In the case of Cambodia, poverty in 1997 was high, with 34 percent of population living with less than a dollar a day and over three quarters of its population surviving with less than two dollars. Similarly, Lao PDR has a very high proportion of its population living in poverty, and between 1992 and 1997 absolute poverty rose from just under 8 percent to 26.3 percent of population and of the percentage of population living with less than two dollars a day from 62 percent to 73 percent.

⁴¹ Moderate Poverty = % of population living with less than \$2 a day – % of population living with less than \$1 a day

Table 2: Percentage of Population living with less than \$2 a day (PPP)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
ASEAN4																
Indonesia	75.84	..	..	..	..	..	64.19	..	..	59.31	..	79.95	65.65	55.38	..	52.42
Malaysia	14.69	..	13.92	..	..	13.84	..	..	13.97	..	9.25	..	..	..	..	..
Philippines	..	55.5	..	..	54.98	..	..	53.06	..	..	45.05	..	..	47.48	..	..
Thailand	..	54.04	..	..	..	37.48	..	..	..	28.25	..	28.14	31.58	32.47	..	..
LDCs																
Cambodia	..	..	..	..	..	..	..	..	..	..	77.71	..	..	..	..	..
Lao PDR	..	..	..	..	..	61.97	..	..	..	..	73.15	..	..	..	..	..
Myanmar	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Vietnam	..	..	..	..	..	..	58.16	..	..	..	..	39.68	..	..	..	33.44

Source: World Bank

4.1.2 Human Poverty Index for Developing Countries (HPI-1)

Income poverty is viewed by many scholars (Amartya Sen, Robert H. Wade and Jan Vandemoortele to name a few) as a poor gauge of the complexity of poverty. Both Wade (2004) and Vandemoortele (2002) claim that the progress of poverty reduction as measured and published by the World Bank, i.e. 'as a proportion of population living with less than \$1 a day' is unreliable and in fact progress is slower. Vandemoortele (2002) in his paper *Are we really reducing poverty?* argues that measuring poverty in this way paints an inaccurate picture as this method is one-dimensional when poverty itself is multidimensional. Along with Wade, he believes other factors – not just economic – such as inequality in education and health must be considered. Sen also argues that while low levels of or absence of income is a major indicator, poverty is also about one's capacity or capability (or lack of) to achieve higher levels of well-being or living standards. Capacity or capability in this instance takes many dimensions, including education and health as well as income. Sen thus refers to poverty as the deprivation of basic capability (1981, 1992 and 1999). When poverty is measured as the deprivation of basic capability, it will yield different outcomes compared to measuring poverty based as income and consumption of goods and services (1981, 1992 and 1999).

One poverty measure subsequently developed to encompass its multi-facet nature was the UNDP's Human Poverty Index, more specifically the HPI for developing countries, also known as HPI-1. This

measures poverty as a deprivation of three essential elements to human life: longevity, knowledge and a decent standard of living⁴². Deprivations in these three key areas reduce a person's capability to shift away from poverty while addressing them enhances the ability to escape poverty. Thus, a country that scores poorly (a high HPI-1 percentage) is a country with low life expectancy rates, a high percentage of illiterate population, low levels of access to health services and basic infrastructures such as access to safe water, adequate sanitation, basic medicine and vaccines and basic education. Low HPI-1, on the other hand, means fewer people are living with poverty as defined by these three deprivations. Importantly by assessing the HPI-1's trend over a number of years will illustrate the state of poverty reduction in the long-term. According to the advocates of the race to the bottom, FDI and global integration along neoliberal lines will lead to greater impoverishment.

On examining the HPI-1 values for the eight Southeast Asian economies, as predicted by Sen, we do see varying results based on income and consumption. Firstly, there is a clearer division between the two groups, ASEAN4 and LDCs (See Table 3). The former have lower HPI-1s, indicating the population of these four countries are less deprived in the three essential elements to human life than the four LDCs. Second, most HPI-1 percentages are higher than their absolute income counterparts. Where there are reductions in the rate of poverty over time, the downward trend is slower for HPI-1 indicating that poverty when examined as beyond being income poor, is decreasing at a slower rate. This confirms Wade and Vandemoortele belief that the rate of reduction, when poverty is examined in a multidimensional manner, is in fact slower than indicated by the World Bank.

⁴² "The Human poverty index concentrates on deprivation in three essential elements of human life already reflected in the HDI – longevity, knowledge and a decent standard of living. The first deprivation relates to survival – the vulnerability to death at a relatively early age. The second relates to knowledge – being excluded from the world of reading and communication. The third relates to a decent living standard in terms of overall economic provisioning." (UNDP HDR)

The country rankings of poverty incidence from the lowest to highest poverty are also different when poverty is examined as a capability deprivation. For example, while the results for absolute and moderate poverty ranked Vietnam in third position overall, and above Indonesia and the Philippines, HPI-1 values place Vietnam behind Indonesia (though it is still the best performer of the LDCs). This is because, while the rate of absolute poverty in Vietnam was very low during the 1990s, (14.6 percent in 1993, 3.8 percent in 1998 and 2 percent in 2002), HPI-1 values, in contrast, were in the high 20-percentage range. Also, unlike absolute and moderate poverty which both experienced reductions, there was a 3 percent increase of HPI-1 values between 1994 and 1999. This status reflects the fact that while only a small percentage of people are living with low income, there are still relatively high levels of deprivation in the areas of health, education and access to basic facilities.

Table 3: Human Poverty Index (HPI-1), 1994-2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002
ASEAN4									
Indonesia	20.8	20.2	..	27.7	27.7	21.3	18.8	17.9	17.8
Malaysia	..	..	..	14.2	14	10.9	..	..	..
Philippines	17.7	17.7	..	16.3	16.1	14.7	14.6	14.8	15
Thailand	11.7	11.9	..	18.7	18.7	14	14	12.9	13.1
LDCs									
Cambodia	52.5	39.9	..	..	..	45	43.3	42.8	42.6
Lao PDR	40.1	39.4	..	38.9	..	39.9	39.1	40.5	40.3
Myanmar	31.2	27.5	..	32.3	31.4	28	27.2	25.7	25.4
Vietnam	26.2	26.1	..	28.7	28.2	29.1	27.1	19.9	20

Source: UNDP's Human Development Reports (1992-2004)

Even though the two measures produce differing results, income-based and as deprivation of three essential elements to human life (HPI-1), are both relevant. Of the two, the UNDP'S HPI-1 provides a more comprehensive understanding of the multidimensionality of poverty. Overall, reports of income poverty in most cases are lower. Many scholars, however, agree that the incidence of poverty is infact higher and reductions slower. Nevertheless, the data shows clearly that in most of the eight developing Southeast Asian countries, poverty has declined.⁴³

⁴³ It must however be noted also that in the midst of the financial crisis, countries that experienced some increases in poverty are among some of the most economically integrated economies to both the regional and global economy (Malaysia being the exception with capital controls implemented almost immediately after the onset of the crisis).

4.2 Human Development Index

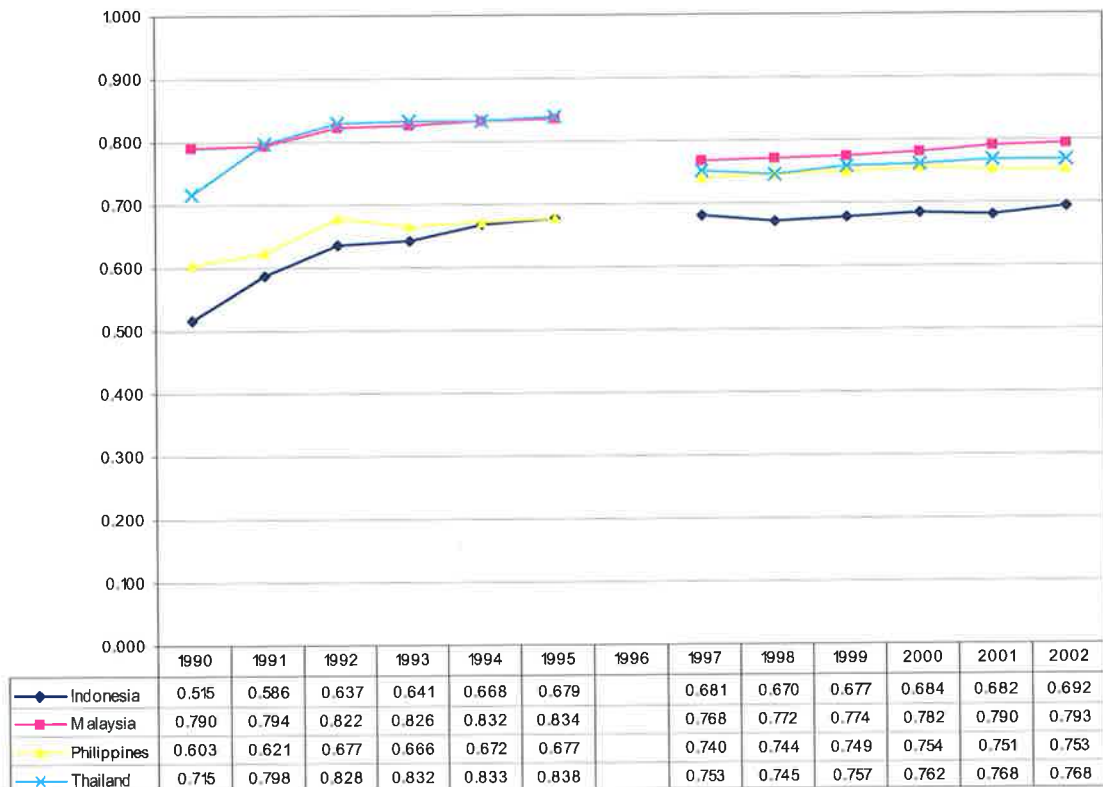
As just established, Southeast Asia in the 1990s and early 2000s has generally experienced, a decline in poverty. Understandably, lower poverty, particularly in relation to HPI-1, means fewer destitutes and overall better living conditions. To assess the extent of this social progress, the state of human development as determined by the UNDP's HDI will be examined.

The HDI for the eight Southeast Asian countries under investigation indicates that here too progress has been made throughout the 1990s (Figure 19 and Figure 21). When divided accordingly into the level of economic development (i.e. ASEAN4 and LDCs), human development between 1990 and 2002 (with the exception of Indonesia) was greater among the ASEAN4. Indonesia's human development, severely affected by the financial crisis and the subsequent political repercussions, stalled and fell temporarily between 1997 and 1998. Indonesia (HDI and HDI rankings) fell even further behind, to below that of Vietnam's level of human development. Vietnam, however, was the noted biggest improver among the four LDCs.

Like Indonesia, the financial crisis also shook the remaining three ASEAN4. Most affected were Malaysia and Thailand. Both experienced significant declines in human development. Thailand's HDI dropped from 0.838 to 0.745 between 1995 and 1998 while Malaysia's fell from 0.834 to 0.772 (see Figure 19). Prior to the crisis, however, these two countries were standouts in promoting human development. For much of the first half of the 1990s, the HDIs for both countries were around 0.800-0.830 (1.000 being the highest) and rankings of around 50 to 60 from an average of 174 countries surveyed (see Figure 20). Since the crisis, Malaysia's and Thailand's HDIs even by 2002 did not reach the pre-crisis levels of the early 1990s.

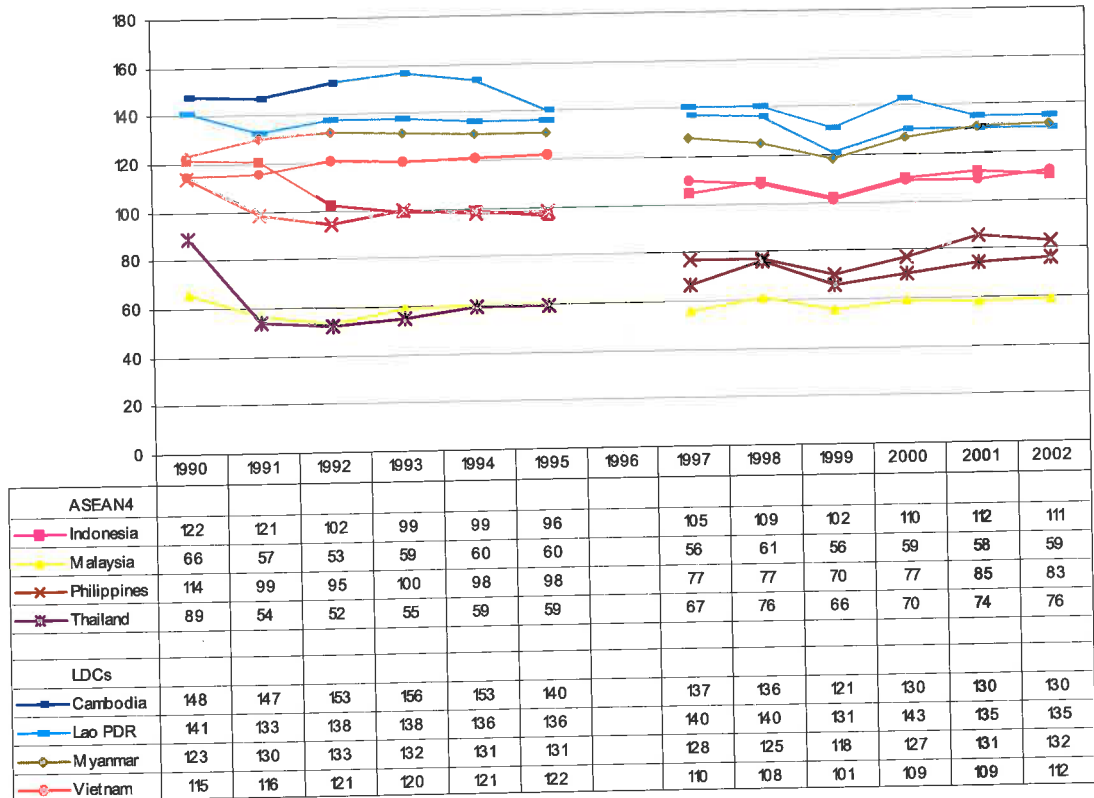
Human development in the Philippines has progressed steadily since the early 1990s. Being the least open and slowest growing economy of the four ASEAN4 countries, the financial crisis appears to have the least impact on the Philippine's human development. However, despite its poorer economic performance, human development in the Philippines was higher than Indonesia, indicating human development can occur despite weak economic progress. Still, it must be noted that in the first half of the 1990s, Indonesia's human development growth was quicker than the two (starting with a lower HDI of 0.515 compared to 0.600 in the Philippines, both countries by 1995 reached similar levels of development, approximately 0.680 – see Figure 19). If the financial crisis had not transpired, its human development would likely be far higher. The same could also be said for Malaysia and Thailand.

Figure 19: Human Development Index, 1990-2002 (ASEAN4)



Source: Human Development Reports 1992-2004, UNDP

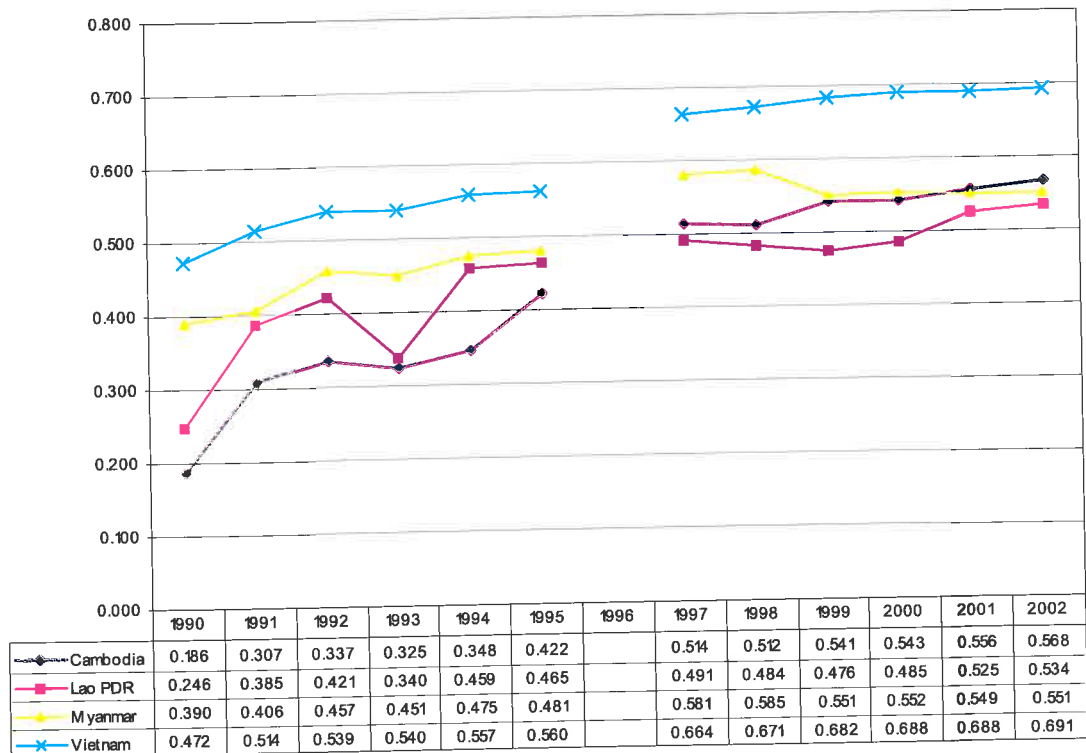
Figure 20: Human Development Index (Rankings)



Source: Human Development Reports 1992-2004, UNDP

Note: HDI Rankings (downward trend is desirable)

Figure 21: Human Development Index, 1990-2002 (LDCs)



Source: Human Development Reports 1992-2004, UNDP

For the LDCs, the upward trend in Figure 21 clearly shows that there had been significant human development in the 1990s. At the start of the 1990s, all had low human development with HDI scores ranging from a low 0.186 in Cambodia to 0.472 in Vietnam. By 2002, much progress had been made, particularly by Cambodia and Vietnam. Starting with the least human development in 1990, Cambodia was the fastest and most consistent improver over 12 years. By 2002, it was only behind Vietnam among the LDCs (and behind Vietnam and Indonesia among the ASEAN4). That is, over 12 years Cambodia's HDI of 0.186 and HDI ranking of 148 of 173 countries surveyed improved to 0.568 and 130 out of 177 countries respectively (see Figure 20 and Figure 21). The end of its civil war is the obvious factor behind Cambodia's successes. Vietnam, on the other hand, was the most developed of the four LDCs, both socially and economically. Between 1990 and 2002, there was steady human development with HDI rising by over 0.200 from 0.472 to 0.691, and by 1999 due largely to Indonesia's decline, human development (including ranking) in Vietnam surpassed that of Indonesia.

Of the remaining two LDCs, Myanmar and Laos, the state of human development was higher in Myanmar throughout the 1990s. However, Laos had the faster HDI growth of the two, growing by 0.288 in value compared to Myanmar's 0.161. It was also the second fastest rate of human development growth among the LDCs. Despite this, both experienced declines in human development since 1998; Lao PDR's HDI decline was only a small one, occurring in 1998-99 and was primarily due to the financial crisis and its dependence on the Thai economy. Myanmar's HDI on the other hand, has remained stagnant at around 0.550 since dropping from 0.585 in 1999. This is largely the result of its long-standing political problems.

Countries that have lower level of poverty, particularly in its HPI-1 ratings, generally have higher human development (i.e. HDIs). ASEAN4 as a group experienced higher levels of human

development throughout the 1990s (greater social development), largely due to being more economically advanced. To some extent, all four countries were affected by the financial crisis (less for the Philippines) where in Malaysia and Thailand with its high HDIs (greater than 0.830 in 1995) regressed, (see Figure 19) and in Indonesia, the rate of HDI improvement dropped off significantly and surpassed by Vietnam in 1999. In contrast, the LDCs, starting with low levels of human development all four made major progresses throughout the 1990s. Cambodia which started as the least socially developed, managed to improved the most. Unlike the ASEAN4s, the LDCs were less affected by the financial crisis. Notably also, political stability, particularly for Cambodia, has not only brought about a more sustainable economic development (as shown in a previous chapter) but also considerable human development.

Overall, there has been real, and sometime significant, progress in both poverty reduction and/or improved human development in Southeast Asia. To understand further the relative success of Southeast Asia's social development and the extent of this development in the eight countries, we now examine separately and in depth, the three key areas as mentioned earlier: education, health, and access to basic health-related infrastructures including the extent of government spending in health. Results should reveal general social progress for all, but at varying degree (like economic development) with the ASEAN4 and Vietnam faster than the LDCs. Moreover, the presence of social development means people's lives in general are improving and thus a race to the bottom may not exist in developing Southeast Asia. It will also become apparent governments have played an important role in both economic and social development in Southeast Asia.

4.3 Education

The use of education indicators to measure of social development helps determine the current and future developmental prospects of a country. Education increases average literacy rates and most importantly, it enhances the knowledge-base of its constituents and of the country as a whole. At the very least, basic education gives a person tools with to which to acquire information otherwise incomprehensible to them, it gives them a chance to acquire new skills that value-add their capability and functionality in society, and it gives them the opportunity to earn a better wage by moving away from low-skilled or even unskilled work to skilled work. Education, therefore, not only has the ability to help improve an individual's earning capacity, but it is also empowering. For a society or a country as a whole, education promotes sustainable development by providing an economy with a workforce more capable of learning and adapting new skills. Thus, along with health (to be discussed later), it can lead to better living standards.⁴⁴ Investing in education, for this reason, surmounts to investing in the nation's long-term prospects.

Education data for all eight Southeast Asian demonstrates high literacy rates (see Figure 22 and Figure 23), particularly youth literacy (age 15-24), high levels of primary education enrolments (see Table 4), and high percentage of population reaching grade 5 for majority of the eight countries (Table 5). Most important though is the evidence of a general increase or improvement in these indicators. But are these continuing improvements a reflection of increased government spending on education or an indicator of increasing private wealth, leading to a greater willingness and affordability for families to educate their children? Regardless, it has contributed to improved living standards, reflected by improving HDIs.

⁴⁴ The exception to this is perhaps a society where there is little civil or political rights for the general population, where life is dictated by an draconian government

4.3.1 Net Enrolment Ratios

On the basis of primary enrolment ratios and the percentage of children reaching grade 5, we can see that Southeast Asia has made a great deal of progress (see Table 4 and Table 5). Primary enrolments are particularly high and in some, almost universal. The rate of children reaching grade 5, on the other hand, were more divided with the ASEAN4s and Vietnam having higher proportion of children reaching Grade 5 in the 1990s. Tables 4 and 5 also demonstrate that in countries where access to basic education (primary education) is universal (or almost), such as Indonesia, Malaysia, Thailand and Vietnam (with the exception of the Philippines), there are a greater proportion of children reaching grade 5. For Malaysia, Vietnam and the Philippines, this had led to secondary enrolment ratios greater than 50 percent of population (in Malaysia's case, 70 percent).

Three of the ASEAN4s – Indonesia, Malaysia and the Philippines – together with Vietnam all had primary enrolment ratios above 90 percent in the 1990s and into the new millennium. Thailand's primary enrolment ratio was slightly lower at around 85 percent (Table 5). The number of children reaching grade 5 for four of these countries were also similarly high (Table 6). The Philippines was the only exception. Despite high primary enrolment rates, the proportion of Filipino children reaching grade 5 between 1990 and 2002 was lower (70-79 percent). The enrolment ratios for the remaining LDCs – Cambodia, Lao PDR and Myanmar (with the exception of Myanmar at the start of the 1990s) – were slightly lower (approximately 80-85 percent). Lower proportion of children's education beyond grade 4 in the three LDCs (between 45-65 percent) also coincides with lower secondary education enrolments (see Table 6). This is because low percentages of children completing grade 4 will mean even fewer (limit) are likely to even enrol in secondary education.

Primary education is the basis for further study and secondary enrolment ratios, therefore and understandably so have yet to match primary level ones (see Table 6). With the exception of Malaysia, Philippines and Vietnam (data for Thailand unavailable), the rate of secondary enrolments in Southeast Asia has generally been below 50 percent. Yet Malaysia, Philippines and Vietnam, the three exceptions, not only have secondary enrolments above 50 percent, when the two different sets of enrolment ratios are compared, they have both the highest primary enrolments *and* secondary enrolments. Unlike primary enrolment, secondary enrolment ratios variation between the eight countries is greater with differences as large as 30 percent. Nevertheless, most important, is the evidence of progress since from 1990.

By 2001, the rising education levels including a significant percentage of children reaching grade 5, particularly in ASEAN4s and Vietnam, indicates widespread access of basic education in Southeast Asia. However, many do not continue onto secondary school. Even in the country with the highest secondary enrolment ratio, i.e. Malaysia, 30 percent of its secondary-aged population *did not* attend secondary schools.

Table 4: Percentage of Children Reaching Grade 5

	1990-95*	1995-99*	1999/2000	2000/2001	2001/2002
<i>ASEAN4</i>					
Indonesia	90	90	(**) 95	89	89
Malaysia	99	99	...	...	87
Philippines	70	69	...	79	76
Thailand	88	97	97*	97*	...
<i>LDCs</i>					
Cambodia	50	45	63	70	61
Lao PDR	53	54	53	62	64
Myanmar	--	69	55	60	65
Vietnam	--	83	80	89	(**) 87

* data refer to the 1998/99 school year

Source: UNICEF's The State of World's Children's Reports

Table 5: Net Primary Enrolment Ratio

	1990/1991			1997			1998/1999			1999/2000			2000/2001			2001/2002			2002/2003		
	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female
ASEAN4																					
Indonesia	97	...	...	99.2	...	...	...	...	...	(**) 91	(**) 93	(**) 89	92	92	91	92	93	92	92	93	92
Malaysia	94	...	...	99.9	...	...	97	97	97	99	100	98	97	97	97	95	95	95	93	93	93
Philippines	96	...	...	99.9	...	...	...	...	...	...	...	...	93	92	93	93	92	94	94	93	95
Thailand	76	...	...	88	...	...	(**) 80	(**) 82	(**) 78	(**) 84	(**) 86	(**) 82	(**) 87	(**) 88	(**) 85	(**) 86	(**) 87	(**) 85	(**) 85	(**) 86	(**) 84
LDCs																					
Cambodia	67	...	...	99.9	...	...	(**) 82	(**) 86	(**) 78	(**) 88	(**) 91	(**) 83	(**) 85	(**) 88	(**) 81	(**) 86	(**) 89	(**) 83	93	96	91
Lao PDR	63	...	...	73	...	...	80	84	77	82	85	78	81	85	78	83	86	79	85	88	82
Myanmar	99	...	...	99.3	...	...	(**) 82	(**) 83	(**) 82	84	84	83	84	84	83	82	82	82	84	84	85
Vietnam	90	...	...	99.9	...	...	96	...	...	96	...	...	95	(**) 98	(**) 92	(**) 94	...	...	...	...	...

Source: Institute of Statistics (UIS), UNESCO

Table 6: Net Secondary Enrolment Ratio

	1990/1991			1995			1997			1998/1999			1999/2000			2000/2001			2001/2002			2002/2003					
	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female	Both	Male	Female			
ASEAN4																											
Indonesia	39	...	...	...	...	...	56.1	...	...	...	...	...	(**) 48	(**) 50	(**) 47	...	...	...	...	...	...	...	...	...	54	54	54
Malaysia	64	...	...	69	65	73	69	66	72	69	66	73	69	66	73	70	66	74	70	66	74
Philippines	59	...	...	77.8	...	...	51	49	53	...	...	...	53	48	57	56	51	62	59	54	65	59	54	65
Thailand	47.6	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
LDCs																											
Cambodia	22	...	...	38.8	...	...	(**) 14	(**) 19	(**) 10	15	19	11	(**) 16	(**) 20	(**) 12	(**) 21	(**) 26	(**) 15	(**) 24	(**) 30	(**) 19	(**) 24	(**) 30	(**) 19
Lao PDR	24	...	...	63.4	...	...	27	30	23	29	32	25	30	33	27	31	35	28	35	38	32	35	38	32
Myanmar	54.2	...	...	(**) 31	(**) 31	(**) 31	34	33	35	36	37	36	35	36	34	35	36	34	35	36	34
Vietnam	54	...	...	54	...	...	(**) 59	...	...	(**) 61	...	...	62	...	...	(**) 65	...	...	...	...	...	...	...	...

Source: Institute of Statistics (UIS), UNESCO

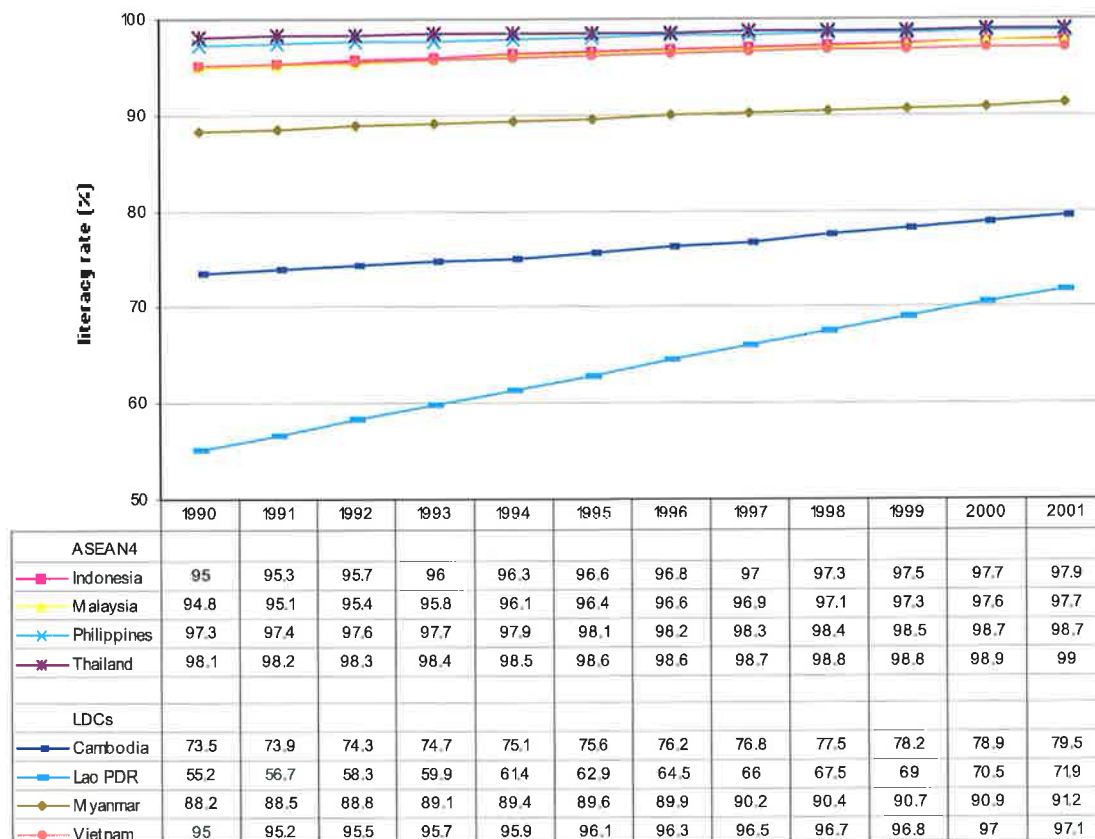
4.3.2 Youth Literacy Rate: 15-24 years

Youth literacy (See Figure 22) – literacy of the population aged between 15 and 24 years – levels are high, particularly in the ASEAN4 and Vietnam. Literacy rates for these five countries have since 1990 all exceeded 94 percent and grown continually. In fact, by 2002, these five had populations that were almost universally literate. Thailand and the Philippines in 2002, for example, had the two highest literacy rates in Southeast Asia at 99 percent and 98.7 percent respectively. Indonesia, Malaysia and Vietnam all had rates above 97 percent. In contrast, literacy rates for the remaining three LDCs were lower. As a country-to-country comparison, the literacy rates for Lao PDR, Myanmar and Cambodia were wide-ranging. Lao PDR at 55 percent had the least literate youth population in 1990 while Myanmar's the highest at 88.2 percent and Cambodia at 73.5 percent; a difference of approximately 33 percent and 17 percent respectively. More importantly, however, is that over the 1990s and into the new millennium, all three economies also experienced substantial increases in youth literacy rates. Laos, for example, increased by 17 percent.

While the presence of long-lasting economic, social and political stability in Southeast Asia promoted sustainable economic and social development, Malaysia and Thailand had the largest contrasting and very different experiences in raising youth literacy. In 1990 Malaysia started with the lowest literacy rate among the five nations (ASEAN4 plus Vietnam) while Thailand the highest. Thus, here we have an example of varying social progress of two similarly dynamic and developed economies of similar economic profile, i.e. economic growth and development. In addition, the youth literacy rates were also very high in the Philippines and Vietnam. In contrast to Malaysia and Thailand, their economic progress was less remarkable, the slowest between the late 1980s and mid 1990s in fact. Thus, here are four economies – two with similar economic profiles – with contrasting experiences. First, Thailand's entire (or close to) youth population was literate (98-99 percent). Prior to the financial crisis, like many of its neighbours, Thailand experienced phenomenal economic progress.

Second is Malaysia. Economic performance in Malaysia during the 1990s – again prior to the financial crisis – had been as dynamic as Thailand's, yet literacy rates were lower, even lower than the lesser developed Vietnam in the early part of the 1990s. Then, there is the Philippines, economically the least remarkable economy of the ASEAN4 countries in the 1990s, which included a recession in the early 1990s. However, in the Philippines the recession appeared to have little impact on education with youth literacy recorded as the second highest behind only to Thailand. Finally, there is Vietnam, a communist regime that until the mid 1980s was a closed economy. Yet youth literacy was consistently above 90 percent in the 1990s, rates that were in fact slightly higher Malaysia's for the first three years of the 1990s. These very different experiences along with the continual rise of literacy rates despite the financial crisis tends to contradict neo-liberal suggestions that economic growth is a pre-requisite to social development.

Figure 22: Youth Literacy Rate, 1990-2001 (Both Sexes)



Source: Human Development Reports 1992-2003, UNDP

Youth literacy for the LDCs, in contrast varied more significantly. In Vietnam, in spite of being less developed economically and political closed/isolated up until the 1980s, youth literacy was not only consistently above 90 percent in the 1990s, but higher than both Malaysia and Indonesia at the beginning of that decade. Of the three remaining LDCs, Myanmar has the largest literate youth population while Lao PDR the smallest. The high proportion of literate Burmese comes as a surprise considering the closed nature of its political system and its poor human rights record. Even more surprising is that there were concerns raised over Myanmar's state of education (and health) by the UN's World Food Programme (WFP). Executive director, James Morris, believed strict government restrictions and control over the economy were the main reasons to these deteriorating conditions. The WFP not only classified one third of the children in Myanmar as chronically malnourished, but also found that large numbers of children received little or no education. This problem included significant numbers dropping out of schools at an early age (Head, 2005).

Lao PDR's youth literacy rate, in contrast, remained the lowest in Southeast Asia throughout the 1990s. With improving primary enrolment ratios and increasing number of children reaching grade 5, literacy in Laos grew faster than the other Southeast Asian economies. Having the least literate population at the beginning of the 1990s also gave Laos the largest room for improvement. Indeed the increased political stability which led to eventual economic reforms in the mid 1980s and increased foreign investments and other aids are also believed to be behind the improved education standards (and living standards, i.e. improved HDI – Figure 21).

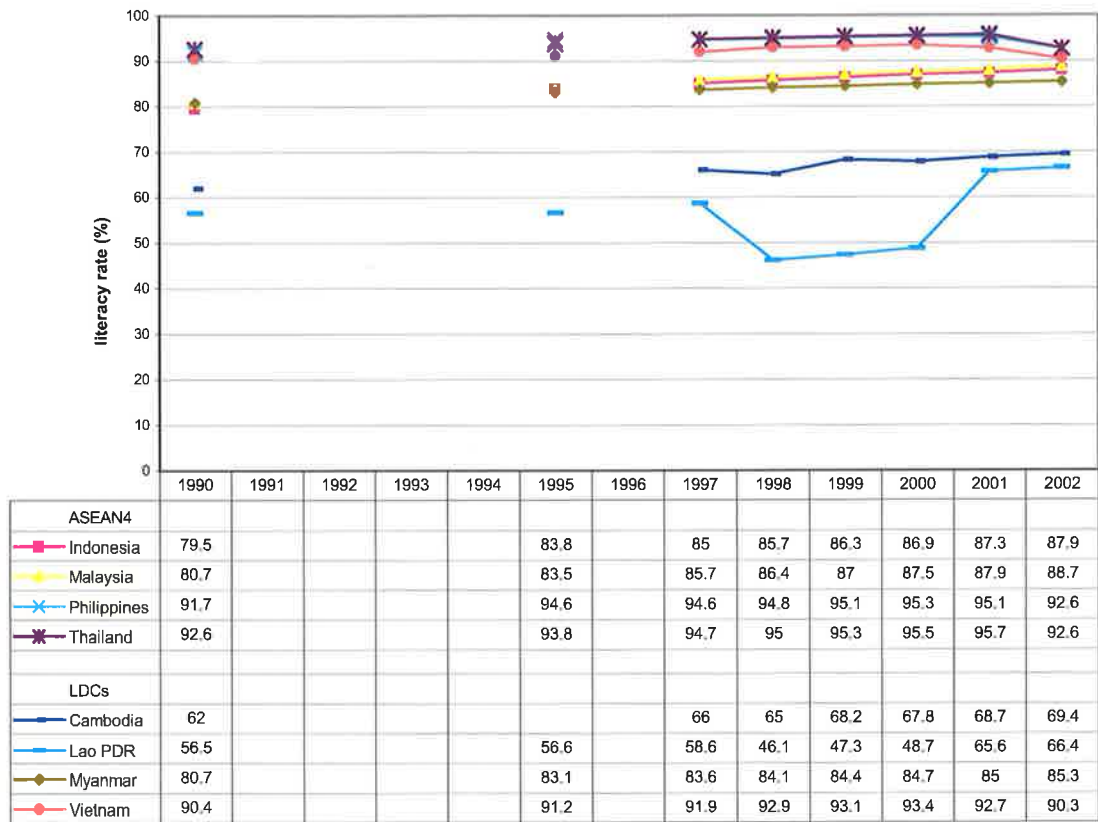
Lastly, there is Cambodia which leading into the 1990s had suffered from much political instability. Decades of civil conflict had destroyed most of the country's infrastructure, resources and human capital. A degree of stability since 1991, despite occasional political tensions and breakout of violence, have in general led to improved and sustained economic conditions, and allowed for social

conditions to improve, including youth literacy which jumped 6 percent from 73.5 to 79.5 percent between 1990 and 2002. However, what needs to be questioned in the case of Cambodia, and particularly in the case of Vietnam, is whether the high literacy rate was the fruit of an education policy put in place prior to the 1990s, perhaps dating further back to their French colonial pre-war days, and achieving improved political stability. Most remarkable is the fact these economies were closed ones till the mid 1980s when they began to liberalise and integrate with the global economy.

4.3.3 Adult Literacy Rates: 15 years & above

Like youth literacy, the ASEAN4 and Vietnam have the highest adult literacy (see Figure 23). Whilst full data was unavailable, they generally follow similar trends to youth literacy, though rates were lower. However, unlike youth literacy, adult literacy is measured from a wider age range, i.e. the entire population above the age of 15 compared to youth literacy's age range of 15 to 24. In two of the eight Southeast Asian countries, Myanmar and Lao PDR, though there is a noticeable difference between their adult literacy and youth literacy figures, Myanmar's adult literacy rate, unlike youth literacy, is clearly the third lowest lagging behind the ASEAN4 and Vietnam. It is at very similar to Malaysia and Indonesia. For Lao PDR, on the other hand, the adult literacy rate fell uncharacteristically in the late 1990s, unlike the upward trends for the other seven countries. Adult literacy dropped in 1997 after experiencing a 2-year growth between 1995 and 1997.

Figure 23: Adult Literacy Rates, 15years and above, 1990-2002 (Both Sexes)



Source: Human Development Reports 1992-2004, UNDP

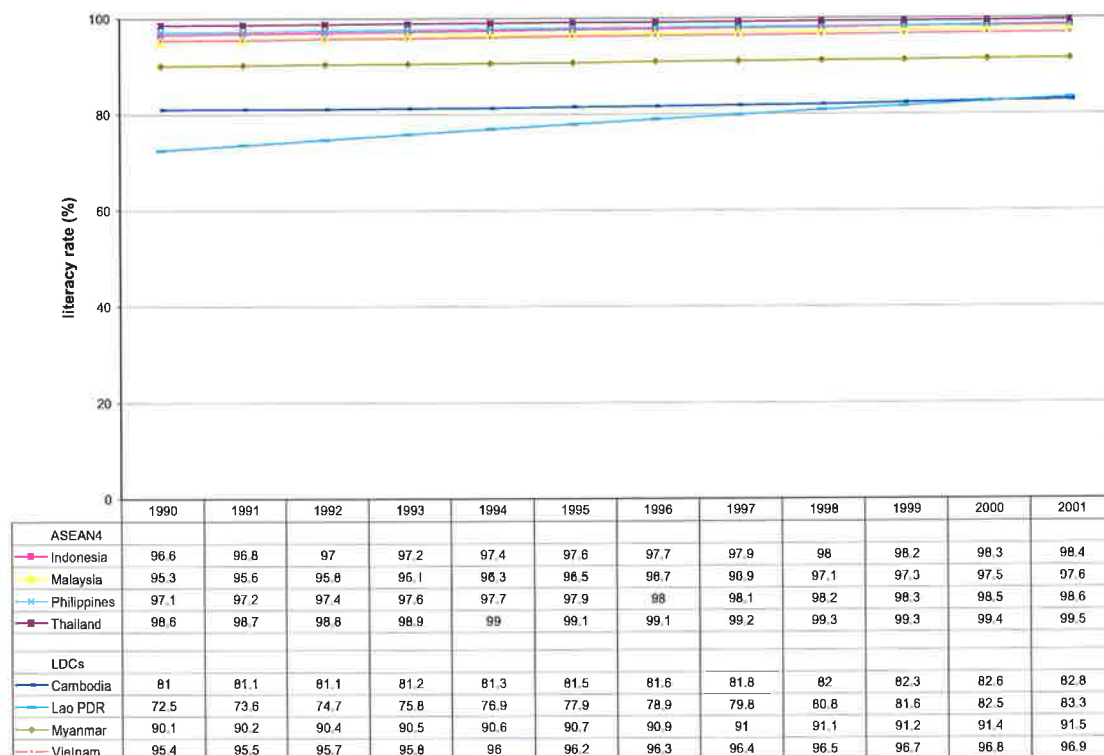
4.3.4 Gender Equality in Education

The disparity in access to education between males and females in the 1990s among the eight Southeast Asian countries narrowed, indicating there is now less gender inequality in education. Comparing the eight countries, with the exception of Vietnam, the ASEAN4 group have the highest male to female ratio to literacy rates (Figure 24 and Figure 25), net primary (Table 5) and net secondary enrolments ratios (Table 6). The 2002 percentage of literate female youth compared to their male counterparts was essentially the same (approximately 1 percent difference). In the case of Indonesia, Malaysia, the Philippines and Vietnam, the rates of female literacy began to exceed those of their male counterparts. For the Philippines and Malaysia, the female net primary and secondary enrolment ratios also equalled or exceeded that of their male counterparts by around 2000 and 2001.

Such high literacy rates and female primary enrolment ratios of above 90 percent are indeed great achievements if equality is considered desirable.

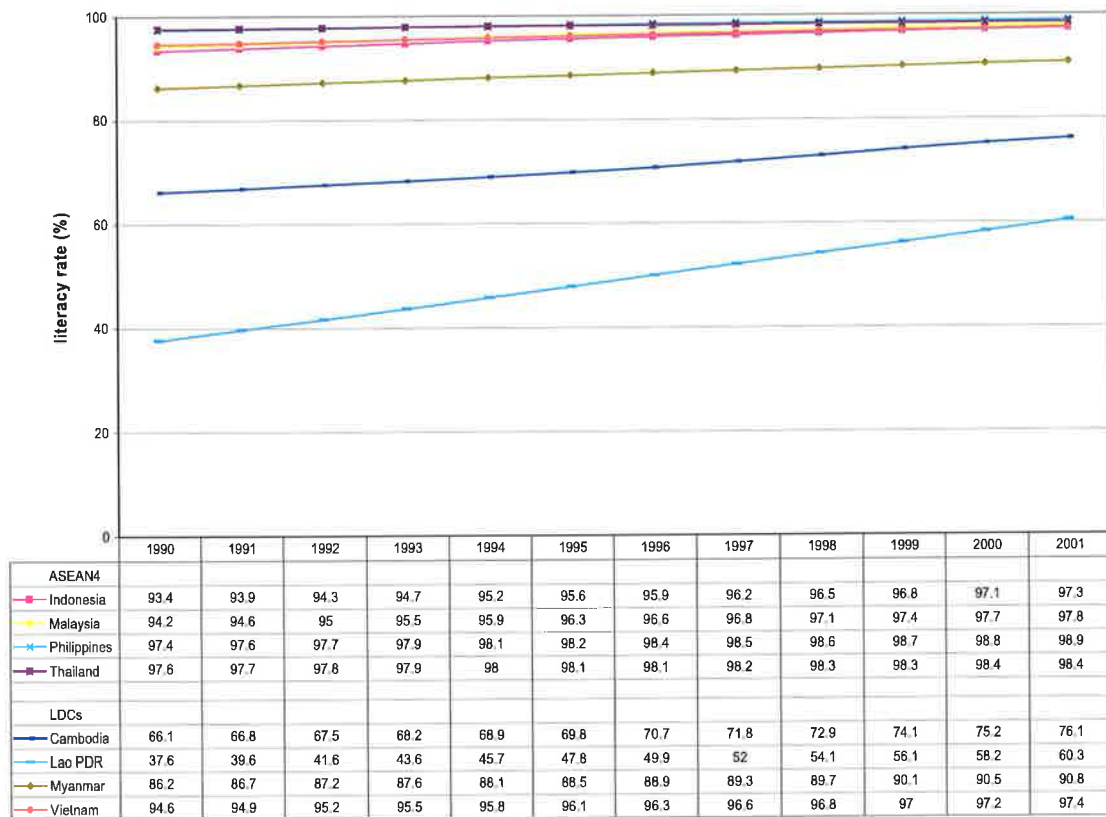
In contrast, the females in the LDCs generally have restricted access to education. This is reflected by their lower enrolment and literacy rates. Literacy rate difference in Lao PDR, for example, in 1990 was of 30 percent with 72.5 percent of the male youth population as literate compared to less than 40 percent for the females. Similarly though less significant, the gender difference for Cambodia is approximately 15 percent, and 4 percent for Myanmar. Most important, however, is the consistent reduction of such gender disparities throughout the 1990s. This shift indicates consistently increasing female access to education.

Figure 24: Youth Literacy Rate, 1990-2001 (Male)



Source: Human Development Reports 1992-2003, UNDP

Figure 25: Youth Literacy Rate, 1990-2001 (Female)



Source: Human Development Reports 1992-2003, UNDP

4.4 Health

Health and well-being measured in terms of longevity is an essential element of the HDI. Human and social development is after all focussed on improving of life expectancy and reducing mortality rates. Like education, the overall good health of a community is important to its economy and an expanding economy can in turn raise the living standards. The relationship between the general or improved well-being of a country's population and the economy (healthy workforce could enhance economic activity), like education, is mutually beneficial. Healthy workers provide for a more productive workforce reducing illness through providing basic health infrastructures such as clean water, adequate sanitation, and vaccines and medicines ultimately also reduces cost to governments.

Health standards vary in Southeast Asia depending on the countries' developmental stage. Malaysia and Thailand being more developed economically have reached higher health standards and better levels of care. This success is reflected in their low infant (both under-1 and under-5) mortality rates, longer life expectancy, high percentages of immunised babies (under-1) and immunised pregnant women against tetanus, good access to adequate sanitation and safe water, and where per capita spent on health are comparatively higher than their Southeast Asian counterparts. On the other hand, the level of health and healthcare in the poorer and less-developed countries of Southeast Asia (such as Myanmar, Laos and Cambodia) can be expected to be lower. Nevertheless, despite the 1997 financial crisis, the evidence reflects continual improvements in healthcare, albeit slow. Such progress, along with improved and improving access to education clearly demonstrates the presence of social development.

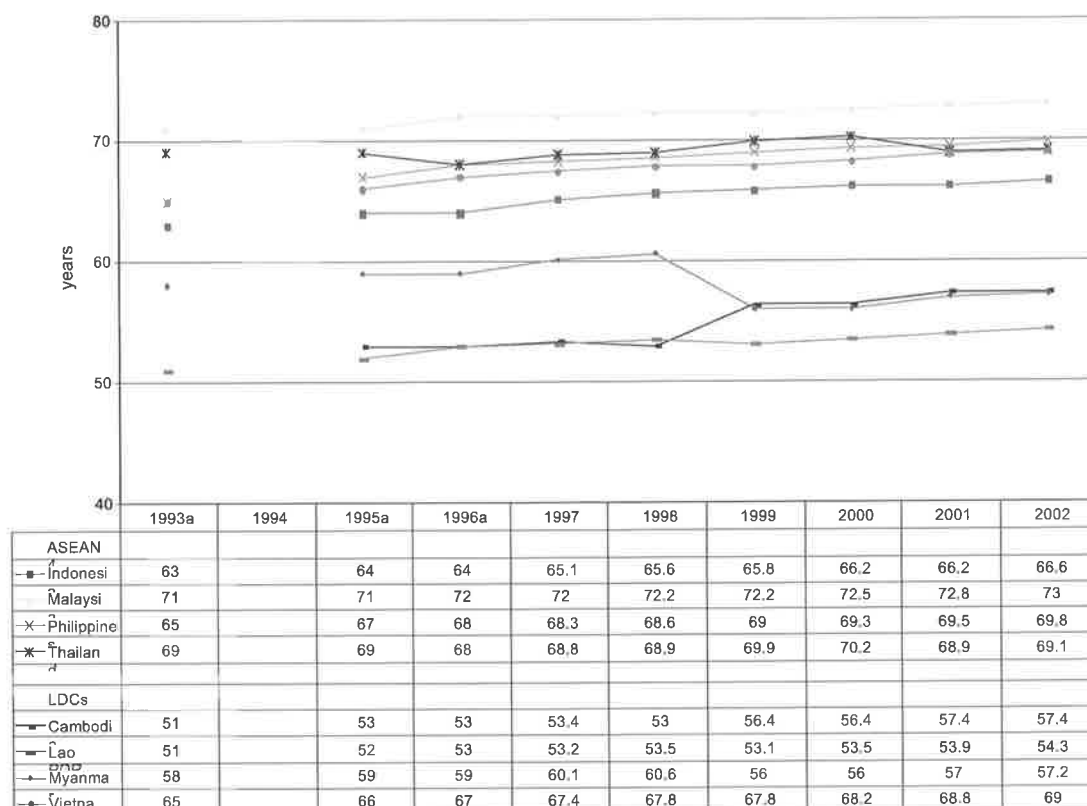
4.4.1 Life Expectancy at Birth

Out the eight Southeast Asian countries, only Malaysia had a life expectancy consistently above 70 years (See Figure 26). This finding indicates that not only is the Malaysian population the healthiest but infants born in the 1990s and into the new millennium are expected to live even longer. Infants born in 2002, for example, are expected to live longer by 2 years than those born in 1993. The second highest life expectancy rates are found in the ASEAN4 plus Vietnam grouping. Thailand and the Philippines both have rates in the high 60s (Philippines started in 1993 with 65 years, steadily improved to almost 70 years by 2002). The Thai life expectancy rate was less steady, fluctuating between 68 and 70 years. In Vietnam, life expectancy in 1993 was 65 years (same as the Philippines) and by 2002 reached 69 years, a rate comparable to Thailand. For a country that is lagging behind in economic development, it seems that more attention had been given to health and education. Last in this group, Indonesia's development while economically more advanced than

Vietnam, in both education and health (evident also in all other health indicators to follow), has been less impressive.

Life expectancy in the three remaining LDCs, with the exception of two years (1997 and 1998) in Myanmar, had been below 60 years. Myanmar was the only country that experienced a significant drop (of four years) in life expectancy, occurring between 1998 and 1999. This is not surprising considering its military-ruled political environment, particularly since the late 1980s. For Laos and Cambodia, the life expectancy of infants born in the 1990s and early 2000s improved by approximately 3 years and a significant 6.4 years respectively. Politically and economically, both economies – particularly Cambodia – in the 1990s have become more stable and at the least economically more open.

Figure 26: Life Expectancy Rate, 1993-2002

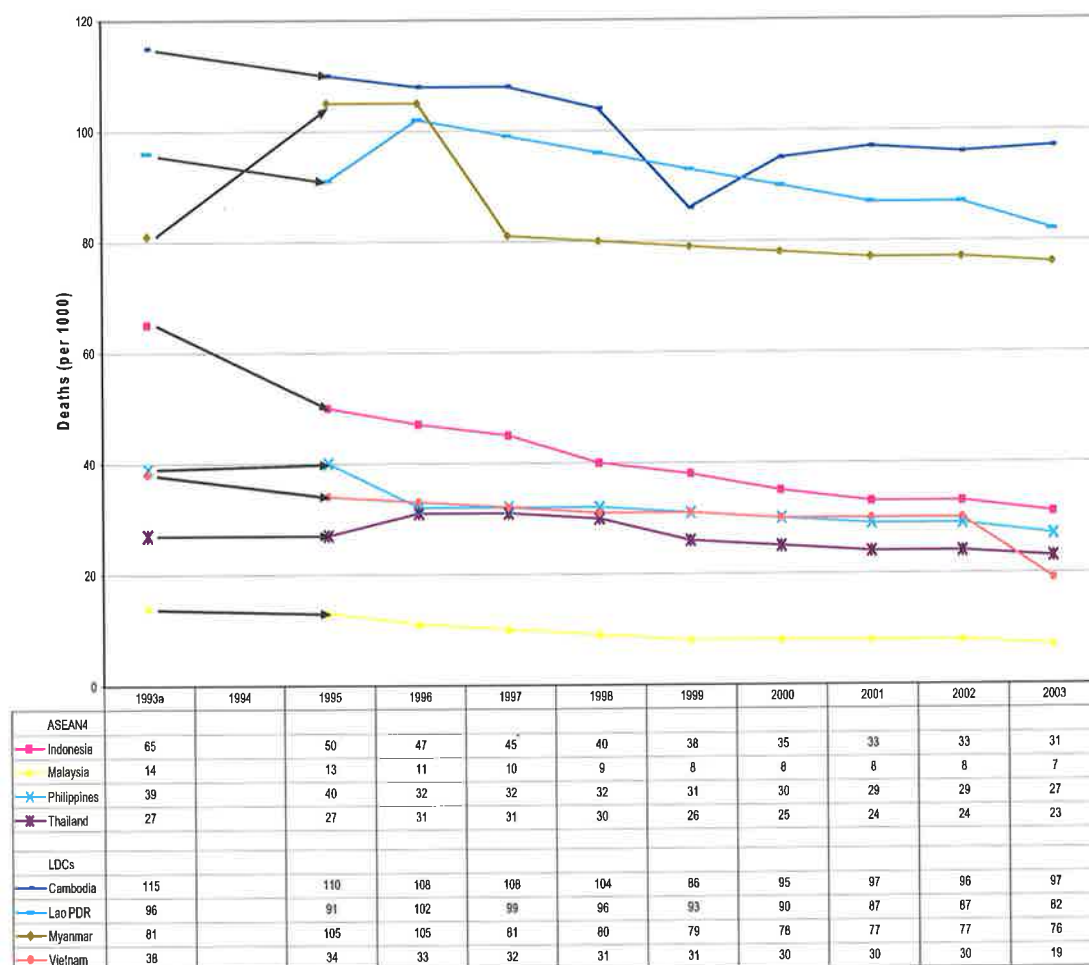


Source: Data for 1997-2002 are from HDR (1999-2004); (a) data source from WHO's World Health Reports (1995, 1996, 1997)

4.4.2 Mortality Rates – Infant (under-1) and Children (under-5)

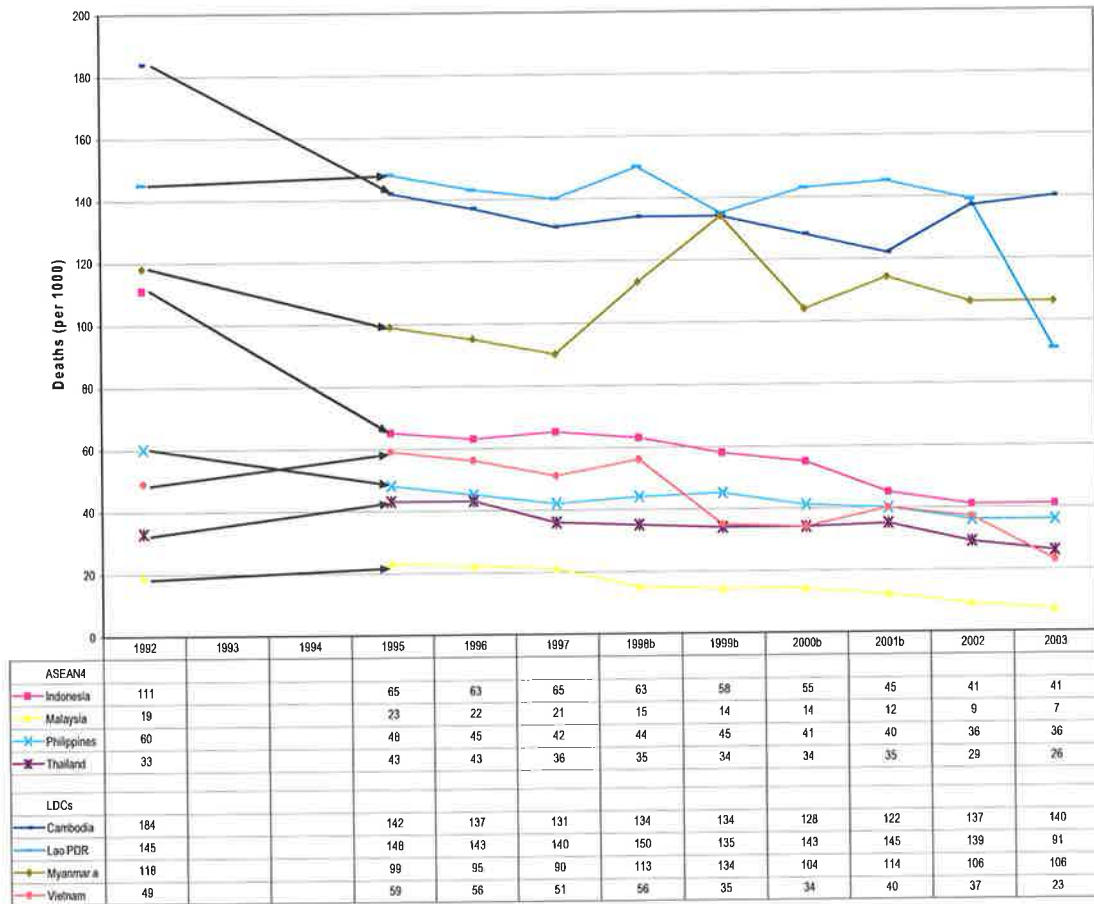
In Southeast Asia, mortality rates, both infant (under-1) and child (under-5) have declined (see Figure 27 and Figure 28). Much of the progress is attributable to improved pre-natal care, improved access to vaccines, and improved sanitation and water conditions, many of which are taken for granted in the developed world.

Figure 27: Infant (under-1) Mortality Rate; per 1000 deaths, 1993-2003



Source: UNICEF's 'The State of the World's Children' reports; (a) data from WHO's World Health Report

Figure 28: Child (under-5) Mortality Rate; per 1000 deaths, 1992-2003



Source: WHO's World Health Reports (1995-2005); (a) Figures not endorsed by member state as official statistics; (b) Figures for this year are calculated from averaging the male under-5 and female under-5 mortality rates (rounded up where required)

Of the eight economies, Myanmar had the largest fluctuations in both infant and child mortality rates. These occurred in the mid and late 1990s. In both instances, the number of deaths increased significantly, i.e. by 24 deaths per 1000 infants and 40 deaths per 1000 children.⁴⁵ The experiences of the remaining countries were generally more stable with mortality rates decreasing gradually. Figures 27 and 28 show that once again the eight countries can be divided into two groups; the first group, the ASEAN4 plus Vietnam have mortality rates noticeably lower than the three remaining LDCs. Also, the rate of decline of mortality for these five countries over ten years is also steadier.

⁴⁵ However, it must be noted that the child (under-5) mortality figures are not endorsed by member state as official statistics.

In Malaysia and Indonesia, progress has been outstanding. Malaysia not only has the lowest mortality rates in developing Southeast Asia, but by 2003 both infant and child mortality rates had dropped to a low 7 deaths per 1000 lives, a number comparable to many developed western countries in the world. In Indonesia, despite having the highest mortality rate of the ASEAN4 plus Vietnam group, there were also significant gains. Infant deaths fell from 65 per 1000 in 1993 to 31 deaths by 2003. Similarly, between 1992 and 2003 child deaths were reduced from 111 to 41: a reduction of over 50 percent.

The LDCs, on the other hand, had significantly higher numbers of infant and child deaths. For instance, Cambodia's infant and child mortality rate were as high as 115 and 184 deaths per 1000 respectively in 1992, but by 2003, the number of deaths fell to 97 and 140 deaths. Myanmar's mortality rates, in contrast, were more sporadic. In the mid 1990s, infant mortality in Myanmar, unlike the general declining trend of other developing Southeast Asian countries, increased to 105 deaths from 81 deaths in 1992. Child mortality rate in Myanmar was similarly sporadic, dropping from 118 deaths in 1992 to a low of 90 deaths in 1997 but has since been erratic fluctuating between 115 and 104 deaths. Likewise, the infant and child mortality rates of Lao PDR were sporadic, but in general, there were no obvious spikes and small reduction in mortality is evident. Child mortality for example fluctuated between 140 and 150 deaths throughout the 1990s, but dropped to its lowest rate at 91 deaths in 2003. The higher mortality rates of these countries are largely due to their general stage of development. Overall, the infant and child mortality rates are, with the exception of Vietnam, higher in the LDCs. The higher rates are largely due to their lower stage of economic development compared to the ASEAN4.

4.4.3 Health Infrastructure

Due to improved healthcare and improved access to health facilities, there is evidence suggesting that much of the population of Southeast Asia is very much healthier today compared even to the early 1990s. Life expectancies are longer and infant and child mortality rates with the exception of Myanmar are lower. Underlying these improved conditions (level of healthcare and access) are better health infrastructures and initiatives. These include widespread vaccination of infants against preventable illnesses and diseases, vaccination of pregnant women against tetanus, the level of access to adequate sanitation and safe drinking water, all of which will be examined along with the role individual governments play in supporting these health-related developments.

As the countries examined in this thesis are all countries at various stages of development, it is also expected that the health infrastructures of these countries be at very different developmental stages. For example, the percentage of infants vaccinated should be higher in Malaysia compared to Cambodia and similarly, there should be a greater proportion of the Malaysians with have access to adequate sanitation compared to Cambodians. However, because a large proportion of Southeast Asians still live in rural areas (Table 7) shows six out of the eight countries examined have less than 50 percent of their population is urbanised), part of this examination of health infrastructures will include exploring the urban-rural divide in relation to basic facilities. Exploring this will also help determine if rural health has been left behind.

Table 7: Percentage of Urbanised Population

	1995	1996	1997	1998	1999	2000	2001	2002	2003
<i>ASEAN</i>									
Indonesia	35	36	37	37	40	41	42	43	46
Malaysia	54	54	55	54	57	57	58	59	64
Philippines	54	55	56	55	58	59	59	60	61
Thailand	20	20	21	21	21	22	20	20	32
<i>LDCs</i>									
Cambodia	21	21	22	21	16	16	18	18	19
Lao PDR	22	21	22	21	23	24	20	20	21
Myanmar	28	26	27	27	27	28	28	29	29
Vietnam	21	19	20	19	20	20	25	25	28

Source: UNICEF's The State of World's Children Reports (1997-2005)

4.4.4 Immunisation of Pregnant Women and Infants

The immunisation of pregnant women to protect their unborn child from neonatal tetanus (Table 8) and of infants under the age of one vaccinated against preventable diseases, measles, polio, tuberculosis and DPT (diphtheria, pertussis or whooping cough, and tetanus), through an Extended Programme of Immunisation (EPI) (Table 9) is important in reducing preventable infant and child deaths. In the eight countries assessed, five had more than 70 percent of its pregnant women population immunised over a period of 10 years, and all but one started the 1990s with high rates of EPI for infants, which for some were not retained over 10 years.

Surprisingly, instead following what appears to be the current trend of this chapter (ASEAN4 plus Vietnam), the top five countries with the highest pregnant women inoculation rate consist of three of the ASEAN4 (Malaysia, Thailand and Indonesia), Vietnam and Myanmar (see Table 8). The fourth ASEAN4 nation, the Philippines had uncharacteristically low rate of below 50 percent in the 1990s. Myanmar's rates were initially a surprise, but an examination of its health expenditure per capita reveals a health spending that was the third highest among developing Southeast Asia, one which also accelerated exponentially since late 1999 (see Figure 30). The higher health expenditure was similarly expected to enhance the standard of healthcare, conditions and facilities. Yet, Myanmar's life expectancy rates fell and mortality rates of infants and children fluctuated in the late 1990s. For the Philippines and the two remaining LDCs, pregnant women inoculation rates were low.

Table 8: Percentage of Fully Immunised Pregnant Women Tetanus

	1992-95	1995-97	1997-99	2000	2001	2002	2003
ASEAN4							
Indonesia	74	78	81	..	..	81	51
Malaysia	79	81	81	..	..	..	..
Philippines	48	46	38	..	..	40	70
Thailand	93	88	90	..	..	..	..
LDCs							
Cambodia	36	31	33	..	..	36	43
Lao PDR	35	32	36	..	..	35	36
Myanmar	83	83	64	..	..	71	77
Vietnam	82	84	85	..	..	89	79

Source: UNICEF's The State of World's Children Reports (1997-2005)

Table 9: Percentage of Fully Immunised (EPI vaccines) 1-year old Children

	1992-95				1995-97				1997-99				1999				2001				2002				2003			
	TB	DPT	polio	measles	TB	DPT	polio	measles	TB	DPT	polio	measles	TB	DPT	polio	measles	TB	DPT	polio	measles	TB	DPT	polio	measles	TB	DPT	polio	measles
ASEAN4																												
Indonesia	86	78	79	70	100	91	90	92	97	64	74	71	85	72	83	71	65	60	70	59	77	75	74	76	82	70	70	72
Malaysia	97	90	90	81	100	91	90	89	98	90	89	88	99	93	93	88	99	97	97	92	99	96	97	92	99	96	97	92
Philippines	91	85	86	86	82	70	67	72	91	79	81	71	87	79	79	79	45	70	85	75	75	70	70	73	91	79	80	80
Thailand	98	94	94	90	98	94	94	91	98	97	97	94	98	97	97	96	99	96	97	94	99	96	97	94	99	96	97	94
LDCs																												
Cambodia	95	79	80	75	82	70	70	68	78	64	65	63	71	49	52	55	64	60	59	59	63	54	54	52	76	69	69	65
Lao PDR	59	53	64	68	58	60	69	67	63	56	64	71	63	56	64	71	60	40	55	50	65	55	55	55	65	50	52	42
Myanmar	82	72	72	75	94	90	90	88	90	75	88	86	88	83	87	85	70	72	71	73	80	77	77	75	79	77	76	75
Vietnam	96	93	94	95	96	95	95	96	95	93	93	94	95	93	93	93	99	98	97	97	97	75	92	96	98	99	96	93

Source: UNICEF's The State of World's Children Reports (1997-2005)

Table 10: Percentage of Population with Access to Adequate Sanitation

	1990			1990-1996			1990-1997			1990-98			1999			2000			2001			2002		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
ASEAN																								
Indonesia	47	...	...	51	73	40	59	77	49	53	71	46	66	87	52	55	69	46	..	..	..	52	71	38
Malaysia	...	...	...	94	..	..	94	94	94	94	94	94	98	99	98			98	..	..	..			98
Philippines	74	...	...	75	89	75	75	89	75	87	95	80	83	92	71	83	93	69	..	..	..	73	81	61
Thailand	79	...	...	96	98	95	96	97	94	96	97	94	96	97	96	96	96	96	..	..	..	99	97	100
LDCs																								
Cambodia	...	...	...	14	81	8	19	..	9	19	57	9	18	58	10	17	56	10	..	..	..	16	53	8
Lao PDR	...	...	...	18	..	..	18	..	..	18	..	..	46	84	64	30	67	19	..	..	..	24	61	14
Myanmar	...	...	...	43	56	36	43	56	36	43	56	36	46	65	39	64	84	57	..	..	..	73	96	63
Vietnam	29	...	...	21	43	15	21	43	15	29	55	18	73	86	70	47	82	38	..	..	..	41	84	26

Source: UNICEF's The State of World's Children Reports (1997-2005)

Table 11: Percentage of Population with Access to Safe Drinking Water

	1990			1990-1996			1990-1997			1990-98			1999			2000			2001			2002		
	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural
ASEAN																								
Indonesia	71	...	...	62	78	54	75	91	66	74	92	67	76	91	65	78	90	69	..	..	..	78	89	69
Malaysia	...	...	...	78	96	66	78	96	66	78	96	66	95	96	90	..	..	94	..	..	..	95	96	94
Philippines	87	...	...	84	93	80	84	93	80	85	92	79	87	92	80	86	91	79	..	..	..	85	90	77
Thailand	80	...	...	89	94	88	81	88	73	81	88	73	80	89	77	84	95	81	..	..	..	85	95	80
LDCs																								
Cambodia	...	...	...	36	85	33	30	..	25	30	53	25	30	53	25	30	54	26	..	..	..	34	58	29
Lao PDR	...	...	...	44	...	...	44	..	..	44	..	..	90	59	100	37	61	29	..	..	..	43	66	38
Myanmar	...	...	...	60	78	50	60	78	50	60	78	50	68	88	60	72	89	66	..	..	..	80	95	74
Vietnam	55	...	...	73	47	42	43	47	42	45	61	39	56	81	50	77	95	72	..	..	..	73	93	67

Source: UNICEF's The State of World's Children Reports (1997-2005)

4.4.5 Access to Adequate Sanitation and Safe Drinking Water

Access to adequate sanitation and safe drinking water are essential for preventing illnesses. For developing Southeast Asia, we see in Table 10 that only Malaysia and Thailand provided almost their entire populations (more than 94 percent) with access to adequate sanitation between the 1990s and early 2000s. The Philippines, too provided a significant proportion of its population (more than 75 percent) with access. These three economies were the more developed, but not necessarily the fastest growing in developing Southeast Asia. For the remaining countries, availability of adequate sanitation varied. In two of the LDCs, Cambodia and Lao PDR, the level of access was particularly low in the 1990s; less than 20 percent in Cambodia, and between 18-46 percent for Laos.

The figures for populations with access to safe water during the 1990s (up till 1999) divided the countries by their developmental stage more evidently than the sanitation data (See Table 11). Safe water was accessible to more than 70 percent of population in the ASEAN4, whilst for most of the 1990s prior to 1999, less than 60 percent of population had access to safe water. Entering the new millennium, accessibility rate remained steady for three of the ASEAN4 while Malaysia rose significantly to 95 percent from 1999 onwards. For the LDCs, improved access occurred in all four economies.

Thus from both Table 10 and Table 11, there were only modest improvements or changes in the access to both adequate sanitation and water of the eight countries, of which the country with the lowest rate of access per population for both is Cambodia. The honours for the highest rate for adequate sanitation belong to Malaysia and Thailand. For safe drinking water, the honours belong to the Philippines and Thailand till 1999. For these three countries, most importantly, was that there

was no major downward trend and therefore no major deterioration of sanitation and water facilities, notwithstanding the 1997 financial crisis.

However, when access to both these facilities is examined as a comparison between rural and urban populations, it is clearly evident that there is a rural-urban disparity favouring the latter. This inequity is despite rural populations being larger, as a percentage of the entire population, for all but two of the economies. Only Malaysia and the Philippines have slightly larger urban populations (see Table 7). Clearly this is an inequality of distribution of infrastructures which questions neo-liberalist claims that any gains from an open and free market and the economic development associated with it will automatically “trickle-down” to benefit all both socially and economically.

What is evident in most countries is that the rural populations were worse off than their urban counterparts. Malaysia and Thailand (and the Philippines to a lesser extent due to increasing disparity) are the only two exceptions where there is rural-urban equality, but this is only in relation to their access to adequate sanitation and not accessibility to safe water. The gap between rural and urban access to safe water for Malaysia has since closed while Thailand's urban-rural divide has remained the same at around 15 percent. For the remaining six countries, the inequality in access to both adequate sanitation and safe water facilities is significant. Among the countries with the largest disparity are the four LDCs and Indonesia. For some, the disparity has even widened through the 1990s and into the new millennium (Philippines' access to adequate sanitation and Vietnam's access to safe drinking water in the late 1990s). For Cambodia and its largely rural population (approximately 80 percent), less than one-third this rural population have access to clean drinking water, while barely any (approximately 8-9 percent) have access to both adequate sanitation. This lack of access amongst the rural population is in stark contrast to the 20 percent of urban population's access rate.

Thus, the biggest inequality in developing Southeast Asia during the 1990s and early 2000s were in the rural vis-à-vis urban access to adequate sanitation and safe drinking water. Despite modest improvements in the eight individual countries, the rural majority's access is generally poorer relative to its smaller urban counterparts. This suggests that the rural-urban disparity remains a major issue. Together with low inoculation rates against preventable diseases, it explains the lower life expectancy and higher mortality rates of both Cambodia and Lao PDR as widespread immunisation along with adequate health infrastructures have important roles in reducing the susceptibility to preventable diseases and illness.

4.4.6 Health Expenditure

Finally, health expenditure is another good indicator of the state of national health. It not only explains current state, it is also a good predictor of future prospects. For example, the total health expenditure as a proportion of GDP, and the amount of government expenditure per capita as a comparison to total health expenditure per capita, are both key indicators measuring a government's attention to public health. This comparison is also a good gauge of the extent healthcare is funded by other means such as privately or through foreign aid.

At first glance, the relationship of economic development and improved well-being of a country's population appears simple; total health expenditure (in dollar terms) increases whenever there is economic growth and development (see Figure 30). The more developed economies such as Thailand and Malaysia are examples where economic development bought about healthier populations through improved health facilities and increased spending. This is evident with longer life expectancy rates and low or declining infant and child mortality rates. To some extent also, the occurrence of Asia's financial crisis also supports this proposition, that is, a decline of health

expenditure (in dollar-terms) in the most affected economies of Malaysia, Thailand, Indonesia and the Philippines in 1997 (a year earlier for Thailand).

While there was a decline in spending per capita, in dollar terms, among the ASEAN4s subsequent to both onset and during the financial crisis, there were no major fluctuations when health expenditure is examined measured as a percentage of GDP (see Figure 29). Thailand's expenditure remained around 3.5 percent of GDP after 1995 despite experiencing a small decline between 1998 and 2001. Similarly, expenditure in the Philippines was maintained at a steady but slightly lower rate. By 2002, this fell below 3 percent, a trend that began in 2000. Health expenditure in Malaysia and Indonesia, in contrast, continued expanding despite of the financial crisis. The change in the total health expenditure per capita in dollar-terms for the ASEAN4 was therefore largely the result of reduced economic activity. It resulted from the 1997 crisis rather than a deliberate act by governments or private citizens to spend less as a result of financial hardships.

As for the lesser crisis-affected LDCs, Cambodia's and Vietnam's health expenditure between 1995 and 2002 were the largest among the eight countries. During this period, total health expenditure in Cambodia grew from 6.7 percent of GDP to 12 percent. At the same time, Vietnam's spending increased from 3.9 percent to 5.2 percent. In dollar-terms, Vietnam's per capita spending was similar to Indonesia's while Cambodia's expenditure (in dollars) since the late 1990s has been slightly larger (Figure 30). The different expenditures when measured as a proportion of GDP with the similar dollar-value expenditure for Cambodia, Vietnam and Indonesia are because each economy is at a different developmental stage. For Indonesia, being the largest of the three economies, the same dollar-value health expenditure will yield a smaller proportion of GDP. In contrast, Cambodia as the smallest economy will have the same dollar-value expenditure making up a larger proportion of its

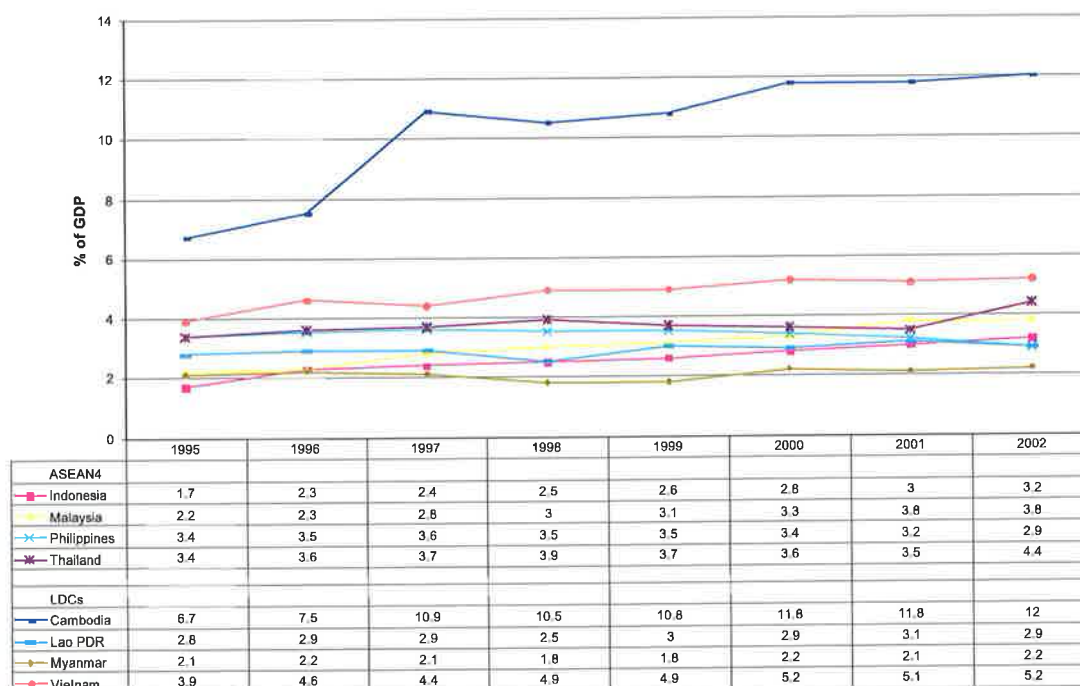
GDP. This also explains why total health expenditure as a share of GDP is generally lower among the ASEAN4 despite the higher health expenditure calculated in dollars.

In Myanmar, total dollar-value health expenditure per capita was only behind that of the most developed economies of developing Southeast Asia, Thailand and Malaysia, between 1995 and 1998. Since 1998 it has grown almost exponentially, reaching by 2002 USD315 per capita, significantly larger than either the Malaysian and Thai expenditure (\$149 and \$90 respectively – see Figure 30). Most interestingly, when Myanmar's expenditure is calculated as a share of GDP, it only accounts for between 2 to 2.2 percent of GDP. This can only mean one of three things: firstly, that Myanmar's economy had been expanding so rapidly that such large health expenditure only accounted for a small share of the country's economic activity. Secondly, much of the funds were through non-governmental means. Thirdly that the accuracy of the data is questionable. Laos, on the other hand, had the lowest total health expenditure per capita, barely making \$10 per capita. This, in turn, accounts for around 3 percent of the country's GDP. Thus, unlike its neighbours, Laos meagre USD10 per capita health expenditure makes up 3 percent of its GDP, reflecting the size of its small economy.

When the role of government is added into the equation of health expenditure in addition to private, the countries that appear to make the largest progress in health are those where government contributions account for 40 to 50 percent of the entire national health expenditure per capita (comparison of total expenditure with government expenditure – see Figure 30 and Figure 31). Two of these, Malaysia and Thailand, had the highest official spending. Until Myanmar caught up early in the new millennium, expenditure was also significantly greater than the other countries in our group of eight. Between 1995 and 2002, the Malaysian government expenditure grew from \$55 to \$80 per capita, i.e. a growth of 31.3 percent. Over the same period, Thailand's grew from \$47 to \$63 (a growth of 25.4 percent). Most importantly, when measured against total expenditure, the rate of

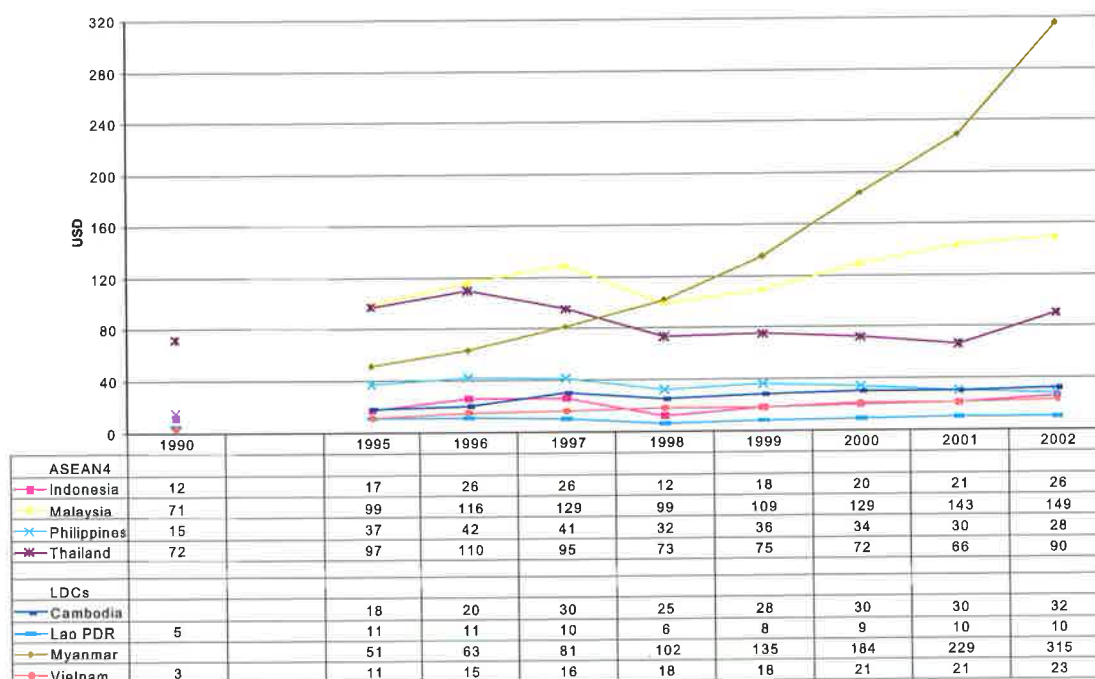
government expenditure remained a steady 40-50 percent. In the Philippines, government expenditure is even higher than the other six countries (see Figure 31), visibly so.

Figure 29: Total Health Expenditure, percent age of GDP (1995-2002)



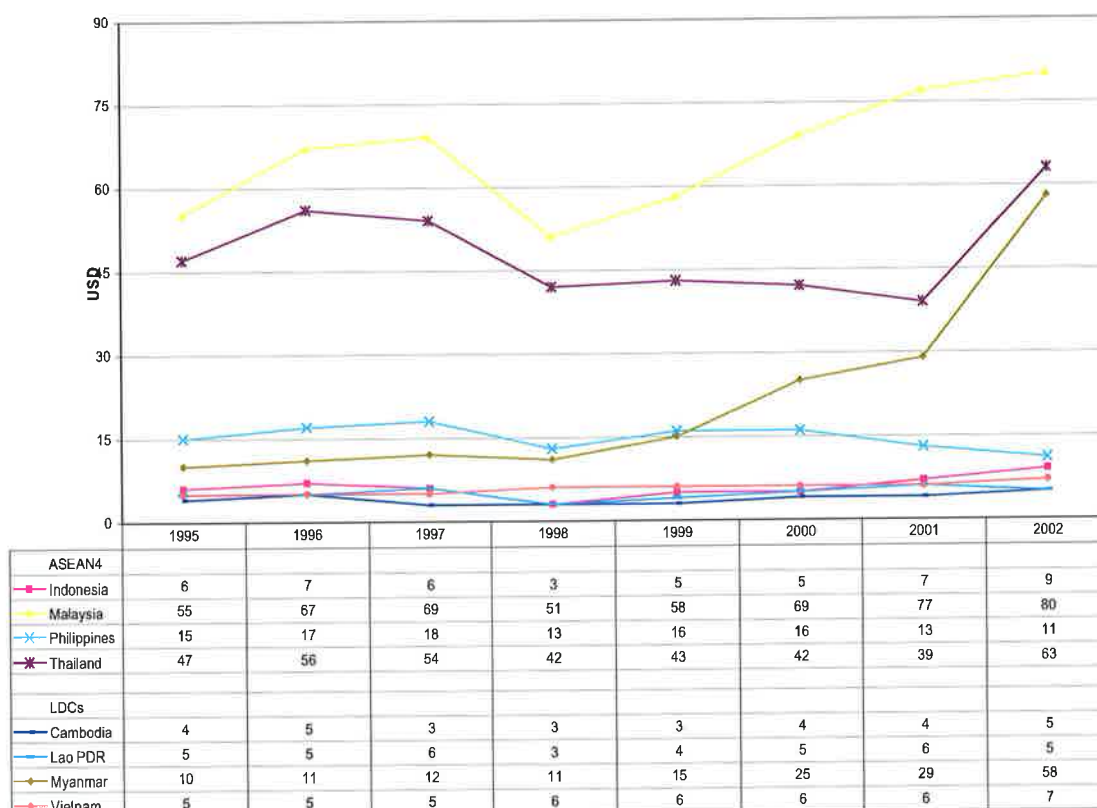
Source: World Health Reports (1995-2005), WHO

Figure 30: Total Health Expenditure per capita, USD (1990-2002)



Source: World Health Reports (1995-2005), WHO

Figure 31: Government Expenditure per capita (USD)



Source: World Health Reports (1995-2005), WHO

Table 12: Percentage of Routine EPI Vaccines financed by Government

	1992-95	1995-96 ^a	1995-97 ^a	1995-98 ^a	1997-99 ^a	1998-00 ^a	2001	2002	2003
ASEAN4									
Indonesia	..	100	100	100	100	100	100	90	90
Malaysia	100	100	100	100	100	100	100
Philippines	..	88	100	100	100	100	100	100	3
Thailand	94	100	100	100	100	100	100
LDCs									
Cambodia	..	0	0	0	0	10	7	6	7
Lao PDR	..	0	0	0	0	0	0	0	0
Myanmar	..	0	0	0	0	0	0	0	0
Vietnam	..	29	58	73	75	75	70	50	55

^a data used from the latest year

Source: The State of World's Children (1997-2005), UNICEF

Myanmar was the notable exception. Health expenditure (total and government per capita) were not only higher than most, they also saw significant increases. Indonesia on the other hand, performed quite poorly. There, the government expenditure was below \$10 per capita. Overall, the three economies with the higher government expenditures, i.e. Malaysia, Thailand and the Philippines, have some of the best health figures in terms of longevity and reduced mortality rates.

The importance of the role of the government in health is also illustrated by their willingness to fund Extended Programme of Immunisations (EPIs). These programmes are important as they ensure a significant proportion of infants are vaccinated against preventable diseases, thus minimising the number of deaths. A high percentage of routine EPIs financed by governments are often reflected in a high percentage of immunised infants. The ASEAN4s, for example, with EPIs that are either almost or entirely funded by their respective governments have in general higher inoculation rates than the LDCs (see Table 12 and Table 9).

The lack of government funded EPIs seem to have some implications on the immunisation rates of Cambodia and Laos. For example in Cambodia, immunisation has fallen since the early 1990s. In Lao PDR, rates in the 1990s and early in 2000s have in general been below 65 percent, and in some instances fallen to as low as 40 percent (See Table 9). Couple the resultant vulnerability with low levels of accessibility to sanitation and safe water facilities to majority of its population, and the health outcomes of both countries are understandably lower. They have low life expectancy rates and high infant and child mortalities (Figures 26, 27 and 28).

Further highlighting the importance of EPIs is the example of Indonesia. With its low health expenditure, the 100 percent government funded EPIs correlates with the high percentage of infants being immunised. Similarly, in Vietnam, partial government funded EPIs (between 50 to 75 percent) have also resulted in a high proportion of infants immunised in the 1990s. This success is also despite low government health expenditure. Thus, the evidence here suggests that governments have a role in ensuring or improving the health of its population whether through spending more on health per capita or participating in EPIs (or both).

4.5 Discussion

In the 1990s and early 2000s, poverty reduction and HDI figures clearly reveal the presence of significant social development in developing Southeast Asia. This social development is undoubtedly a result of robust economic development, particularly amongst the higher performing economies of the ASEAN4 since the 1960s and Vietnam since 1968. However, these improvements were actively pursued by governments in an attempt to reduce poverty through improving education, focusing on both primary and secondary education, and health. These governments apparently believe that enhancing the health and education of their peoples is a way of contributing to future sustainable economic growth (Rowen, 1998). Human capital after all is a vital ingredient when attempting to shift the economy away from agriculture to higher value-added industries.

In this chapter, poverty was examined in two ways, first as income deprivation looking into proportion of population living in absolute and moderate poverty and secondly as a deprivation of essential elements to human life: longevity, knowledge (or education) and a decent standard of living (measured as the HPI-1), as advocated by Amartya Sen. First, the income-based measure of poverty revealed developing Southeast Asia as having made significant progress in reducing populations living in absolute poverty. In two of the more advanced and previously more productive economies of Malaysia and Thailand, the rate of absolute poverty was low (2 percent for Malaysia while Thailand's rate fell from 6 percent to 2 percent) throughout the 1990s and early into the new millennium. In general, when compared to the LDCs (with the exception of Vietnam), the economically more advanced ASEAN4 have lower and continually declining numbers of citizens living in absolute poverty.

The rate of moderate poverty (people living with less than \$2 a day) in the eight countries, in contrast, is still significantly high. The exception was Malaysia where the proportion of people living

in moderate poverty was below 15 percent and this already low rate continued to fall below 10 percent over the course of the 1990s. The remaining seven nations had at least 30 percent of their population was living in moderate poverty. For Cambodia, the rates were as high as 77 percent. Most important, however, is the evidence of undoubted progress, which is most noticeable among the ASEAN4s and Vietnam. For the LDCs, however, the little available data has shown increases in the incidence of poverty in Lao PDR and high rates of poverty in Cambodia. Of the LDCs, Vietnam is the exception and unlike Cambodia, Lao PDR and Myanmar, Vietnam's social development has been comparable to the ASEAN4.

While the income-based poverty measure showed some positive and significant reduction, when measured as a deprivation of essential elements to human life (HPI-1), the incidence of poverty was often higher and the reduction slower. Progress was interrupted by the 1997 financial crisis where the HPI-1 indices of the most affected countries of Thailand and Indonesia regressed by approximately 7 percent. This is because poverty here is examined as beyond an income problem, but rather a multidimensional problem. Importantly also is that when examined as a deprivation, poverty is examined as a capability issue and alleviating capability poverty means increasing life longevity, improving education and creating more opportunities to allow more people the possibility to have a decent standard of living. Thus the HPI-1 figure reflects the well-being of people and the possibility and their ability to improve life through education. In an economic crisis, livelihoods will be affected beyond the individual's control and this was the case for Southeast Asia, particularly Indonesia.

As the main components of the HPI-1 – longevity, knowledge (i.e. education) and a decent standard of living – are essentially the same as the HDI, similar but inversed trends to HPI-1, were observed with human development, using the HDI. The HDI, instead of being a measurement of deprivation, is

a measurement of progress. Thus with an overall decline in HPI-1 in the 1990s, Southeast Asian human development was on the rise. A comparison of the human development experiences of the eight economies showed varied growth rates, largely based on their stage of economic development. In Malaysia and Thailand, the progress was particularly remarkable with both reaching the highest category. The LDCs, in contrast, began the 1990s with poor rates and ranked poorly in human development. Despite their poor rankings, human development in these countries also improved quickly and has since reached the mid-range category. The two standouts were Cambodia and Vietnam. Cambodia achieved the largest improvement, growing from below 0.200 to 0.568 between 1990 and 2002. In Vietnam, there was also substantial human development and the nation soon reached levels similar to Indonesia (approximately 0.700). For Vietnam, it became apparent in this chapter that social development had progressed faster than the remaining LDCs. Its progress, instead, has been very much at the same levels of the ASEAN4. Thus, it is clear here that both economic growth and development has undoubtedly contributed to developing Southeast Asia's human development.

Despite these apparent successes, Joseph Stiglitz has warned that a:

...sustained reduction in poverty cannot be attained without robust economic growth, the converse is not true: growth need all benefit all" and "growth alone does not always improve the lives of all a country's people... (2002: 78, 79)

There is evidence to suggest that economic development alone did not lead to social development. Without seeking to improve their human capital by means of providing primary and secondary education, many of the high performing developing Southeast Asian economies would have neither developed so rapidly nor been able to sustain it (Rowen, 1998). In the 1990s, the ASEAN4 have sought to continue this trend of positive development as they continue along their industrialisation path. The Malaysian government, for example, has been instrumental in guiding the economy toward out-wards export oriented economic policies. The Malaysians placed much emphasis on enhancing the national knowledge base and adding-value to their manufacturing industries. This was done by

continually encouraging foreign investments, which enhance the possibility of technology transfer and by spending heavily on education.

Many of the governments of Southeast Asia played an important role in both their national social and economic development. However, the emphasis placed on social development varies from country to country. Thailand and Malaysia are prime examples where social development and economic development went hand-in-hand as a result of government intervention. In the case of the Philippines and Indonesia, social progress was greater in the Philippines while speed of economic development favoured the latter. The Philippines scored higher HDIs over Indonesia (pre-crisis), where even a recession between late 1980s and the mid 1990s did not impact on human development. On assessing various health and education indicators, the Philippines out-performed Indonesia in most areas including life expectancy, lower mortality rates of infants, better literacy rates, higher school enrolments, better access to adequate sanitation and safe water and higher health expenditure, particularly those spent by the government.

Overall, the trends of social development in relation to gained knowledge (education) and longevity (health) for all eight Southeast Asian countries were positive throughout the 1990s and early 2000s. Their development can be divided along the lines of their economic performance; i.e. the ASEAN plus Vietnam and the three remaining LDCs. The LDCs development was slower and at times sporadic and less consistent. Like economic development, the LDCs were all affected by current or past political tensions and instabilities. For example, in Myanmar there is the on-going detention of Ang Sang Suu Kyi and related struggles against the military junta by pro-democracy elements. Similarly, Cambodia's civil war, which ended in 1991, still casts shadows over many aspects of government activity and inhibits developments in many areas of its economy.

In all eight countries, social progress was the result of the emphasis placed on education in particular. Net primary enrolments were particularly high in all countries. The point of difference, which may have long-term ramifications for development and which is also the reason progress had been faster among the ASEAN4 and Vietnam is the proportion of children reaching grade 5 and the rate of secondary enrolment. Countries in Northeast and Southeast Asia (less so for the LDCs) have traditionally invested heavily on both primary and secondary education and the fruit of this policy is a high quality workforce, one that has allowed rapid industrialisation (Rowen, 1998). This emphasis is particularly true for economies such as Malaysia and Thailand where since the 1990s primary education is universal and where relatively high secondary enrolment rates of approximately 50-70 percent will ensure the economy has a good foundation in human capital to continue to grow into the future. Based on improving education data albeit the slower progress, the signs are promising for the LDCs.

In health, the ASEAN4 and Vietnam were in general the better performers. Not surprisingly, Malaysia's was the best where improved care, greater access to healthcare and higher expenditure resulted in life expectancies and infant and child mortality rates that are comparable to most developed western nations. In contrast, the health performances among the LDCs, particularly Laos and Cambodia, have been sporadic. The poorer outcome reflects the low expenditure per capita and the even lower amount spent by the governments, and on vaccination programs. Myanmar's performance then comes as a surprise. While infant and child mortality remained high and life expectancy rates low, the government increased spending significantly. Perhaps the reason that the increased spending has not yet translated into improved results is that developments have a tendency to lag well behind the original investment. However, these figures are also unreliable due to the nature of Myanmar's government and its very poor human and civil rights records.

Inequality, in both gender and rural-urban developments, is always major concern in terms of social and economic development, whether it is the female population being left behind, the rural areas missing out in their share of wealth generated or access to facilities. In developing Southeast Asia, gender inequality in the access to education is not an issue. In most cases, past and current governmental policies ensured females had the same access as males. Human capital after all is human capital and females are a welcome addition to workforce in terms of people power. It has been noted by Rowen that educated females also set good examples at home from knowing the benefits of education first hand. Such mothers are more likely to encourage education upon their children and this will in turn assure an economy of its supply of labour. Such education is thought to also reduce birth rates, reducing the burden on the government and the economy (Rowen, 1998).

The rural population's improved access to health infrastructure such as adequate sanitation and clean drinking water are behind the positive urban developments. This is a consistent observation for most of the eight countries. Making the access disparity more apparent is the predominantly rural populations in six out of the eight countries (Malaysia and the Philippines are the only countries where there is either an urban majority or have half its population urbanised). While the majority of populations are rural inhabitants, it is the smaller urban population that have received the bulk of the improved facilities with more than often the rural population missing out. In this group of eight, it is only in Malaysia, Thailand and the Philippines where there are some semblance of equality. They are the better performers, whether in one or both of access-related indicators. In these three countries, regardless of area, a high percentage of population in both areas have benefited from improved access.

The financial crisis of 1997 tested many of these countries both socially and economically. The consequence of the crisis was particularly severe among the ASEAN4 while it felt less acutely by the

LCDs. This is explained by their lower levels of economic integration into the regional economy. One positive consequence of this was that social development in these Southeast Asian countries appears to be largely unaffected when individual education and health indicators were assessed. In contrast, the social development of the ASEAN4s was temporarily affected and experienced declines in HDI and increases in poverty (HPI-1). Of the eight, Indonesia appears to have been the most affected due to its experience of massive hyperinflationary pressures. Here, poverty worsened (both income poverty and HPI-1), HDI fell slightly, and while as a percentage of GDP health expenditure did not decline, the contraction of the economy (or lack of activity) saw both the total and government expenditure in dollar-terms shrink by half. Since the late 1990s, as Indonesia began its slow recovery, social progress has resumed to a quicker pace. Also affected by the financial crisis though less severely, Malaysia and Thailand both experienced a small rise in HPI-1 and even larger drop in HDI. Having achieved high human development status, both fell to the mid-range as a result of the crisis. All other indicators in relation to health and education experienced no significant anomalies. Thus, the overall decline in poverty, human development as reflected by the HDI and by various education and health data indicates that there is, and moreover was, no race to the bottom amongst the eight countries examined in this thesis. While there is no denying the presence of inequalities, the eight countries have shown continued improvements in many key areas of health and education.

Chapter Five: Conclusion

The overall finding of this thesis suggests that there is in fact no substantial evidence of any race to the bottom in developing Southeast Asia. While the gap between the rich and the poor is widening and the poor are relatively poorer when compared to the rich, this is largely because the richer are becoming richer. Nevertheless, for the race to the bottom to be credible, there should be evidence of not only relative inequality but also absolute declines in the measures covered in previous chapters. To the contrary, the evidence unambiguously supports the presence of absolute increases in living standards and social development throughout the 1990s and early 2000s.

The implication of this finding for the two main schools of thoughts examined in this thesis, neoliberalism and their critics is that neoliberal policies have far greater credence. That is, as neoliberal theory posits, economic development in Southeast Asia has indeed led to social development and this has been supported by, not undermined by policies designed to both attract FDI and to participate in International Trade.

Unlike the contentions of the anti-globalisation, anti-neoliberal critics, the competition for FDI and trade liberalisation did not lead to a race to the bottom in Southeast Asia. Instead, this evidence suggests the more outward looking and opened these countries were to FDI, the greater the level of social development. That is, living standards in these economies were raised, poverty on the whole

declined and the health and education sectors experienced some growth. Even indices in those countries worst affected by the 1997 financial crisis and its aftermath, generally returned to positive status soon afterwards. If a race to the bottom did exist, these social indicators would show an overall downward trend in living standards as well as increased poverty.

However, to attribute all the developments to neoliberal policies alone is too simplistic as the development that transpired is not straightforward. Economic growth and development in many developing Southeast Asia countries, whilst based on export-oriented policies and dependent on FDI, was largely facilitated by strong governmental involvement. In the more developed economies of ASEAN4 as well as Vietnam, these state-led interventions ensured at least basic levels of education and healthcare, protected key industries and markets from foreign competition while they develop, and required FDI (or MNCs) to transfer technology and knowledge in return for the access to workforces that were low-cost, but more importantly, ones that were able to adapt and learn quickly. The implication of this for neoliberals is that the influence of their ideas cannot claim full credit for developing Southeast Asia's impressive economic and social progress. On the other hand, the critics cannot claim the existence of an FDI-led, induced or caused, race to the bottom. For this reason, it appears economic and social development in Southeast followed a middle ground where aspects of neoliberalism were used successfully, but under the guidance of their respective governments.

Based on the statistics on social development alone, the claim by some anti-globalists that there is a race to the bottom in developing Southeast Asia is clearly incorrect. What is clear is that there were absolute improvements in living standards and social conditions during the 1990s and early 2000s, although these varied. For example, all eight countries experienced human development as determined by the HDI. Malaysia and Thailand, notably, reached high levels of human development

in the mid 1990s. The LDCs also moved up from the low human development category to the mid human development range. With human or social development, there was also the evidence of reduced poverty. Both poverty indicators used in this thesis, income-based and HPI-1 (i.e. deprivation-based) generally declined. The rate of poverty reduction appears quicker with the income-based measure, but it is the deprivation-based measure, HPI-1, that many believed (Amartya Sen, Jan Vandemoortele, Robert Wade to name a few) more accurately gauge poverty. While the 1997 financial crisis halted and/or slowed economic and social development in these countries, most have since made substantial economic recoveries and most indices, including social development ones, have returned to positive levels.

Education, Healthcare and Health-related infrastructures all showed some significant progress. In education, literacy rates improved. Youth literacy rates for ASEAN4 and Vietnam were in fact near universal (all above 95 percent) whilst adult literacy rose to around 89-90 percent. Even Myanmar followed closely behind and for the remaining two LDCs, literacy rates, while lower, improved nevertheless. Despite falling into the least developed economically category, the positive education figures for the LDCs show not only social progress but also growing economic potential for long-term development.

The health and the well-being of Southeast Asians have also improved. As with education, the health standards of the ASEAN4 as well as Vietnam performed better than the three remaining LDCs. Life expectancies are now generally above 65 years and as high as 72 years in Malaysia. Infant and child mortality rates continue to drop, with Malaysia out-performing the others with mortality rates comparable to that of industrialised nations. Life expectancy rates, in contrast, were lower in the LDCs, ranging from 50-60 years while mortality rates were sporadic and significantly higher. Nevertheless, the overall improvement experienced by both the groups of countries is attributable to

improved healthcare facilities and infrastructures such as access to adequate sanitation and safe drinking water, maternity care and inoculation rates points to the interconnecting relationships between the overall well-being and longevity of a population and their access to a decent standard of basic healthcare and overall health expenditure. Myanmar, however, is the anomaly. Despite an apparent exponential growth of health expenditure and better facilities and infrastructures mortality rates remain high.

For critics of neoliberalism, inequality, whether gender-related or urban vis-à-vis rural, had always been a major concern. In developing Southeast Asia however, particularly in the ASEAN4, gender inequality in education does not appear to be an issue. Female literacy rates have been comparable male rates and there was virtually no disparity in enrolment ratios. There are though, obvious disparities between urban and rural access to health facilities. Of the eight developing Southeast Asian countries examined most, with the exception of Malaysia and the Philippines, urban populations have far greater access to health facilities despite rural populations being the majority. Thus, social development in developing Southeast Asia, particularly in the area of health, is not consistent compared with economic progress. Such inequality is more evident in the LDCs where social progress is slower and more sporadic than in their ASEAN4 counterparts. The trend in these data also indicates quite clearly the faster and the more developed the countries were the greater the social development.

Yet despite the presence of some inequality, the social development that occurred in our sample must not be ignored. The progress of Vietnam during the 1990s in particular reached levels comparable to those of the ASEAN4 and is both impressive and noteworthy. While neoliberals believe unquestionably that Southeast Asia's impressive economic and social progress is the result of economic globalisation or free-market policies, literature and data indicate otherwise. Yes,

developing Southeast Asia is very much integrated into the global economy (A.T. Kearney/Foreign Policy, 2003) and its government successfully implemented policies that can be considered substantially neoliberal in at least some respect. Nevertheless, the key factor remains that these governments (not just "the market") played very conscious and active roles in implementing policies that led to these beneficial outcomes.

Moreover, these governments did not simply promote economic development as a means to bettering livelihoods. While trade and FDI played a significant role, it was not a straightforward case of liberalisation or deregulation. Many of these governments imposed conditions on FDI (i.e. MNCs) interested in investing in their countries, such as requiring technology and knowledge transfer. These FDIs were also often not permitted, or have restricted, access to the domestic markets. In spite of these restrictions and conditions, MNCs remained interested and FDI continued its inward trend. This pattern shows that FDI movement is not exclusively based on the cheapest location with the lowest standards. The primary reason why they overlooked these restrictions was because many Southeast Asian nations were able to provide a workforce that is relatively low-cost, but importantly able to adapt and learn quickly and therefore be more productive. This outcome in turn, due to the investments by respective governments into ensuring their populations had a basic level of education. This case feature therefore refutes the critics' argument that FDI always flows in the direction where labour (and environment) standards are kept at a minimum and that it always engage developing countries in a race to the bottom.

Overall then, this thesis finds no race to the bottom in developing Southeast Asia as all eight countries examined experienced, albeit at varying levels, economic and social development. FDI did not fuel a race to bottom as posited by anti-globalists. Instead, it stimulated economic growth and development which led in turn to economic gains and social development. However the relationship

between economic development and social development is not a simple one. The role of governments in promoting social development while they pursued rapid industrialisation is also of key importance here. The policy approach of these governments is therefore combination of aspects of neoliberal economics and state-led intervention. In essence, developing Southeast Asian countries are not neoliberal states nor have they entered or experienced a race to the bottom due to their pursuit of FDI for development as claimed by anti-globalists.

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Documentary: SBS program shown on Sunday 03/02/2002, 8:30-9:15pm titled '**Light Through Ashes**'. The program compares the different level of development between the 'West' and Nigeria. It clearly shows that in the process of globalization there is a difference between the global north and global south. The program exposes the exploitation of labour and people by Multinational Enterprises, particularly large oil companies.

Documentary: SBS program shown on 22/01/2002, 8:30-9:30pm (titled unknown) about Indonesia, its government, International Institutions, Multinational Enterprises and the Indonesian people. It raises the issue of increasing poverty and powerlessness of the people to prevent their exploitation by their Multinational Enterprises employers. The program also showed the huge economic discrepancy between the affluent and the poor. It exposes the corruption that was rampant in the Indonesian dictatorial government run by Suharto and his methods of suppression on those who opposes him.