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REGIONAL OUTLOOK

Southeast Asia 2000–2001

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INSTITUTE OF SOUTHEAST ASIAN STUDIES

PREFACE

Regional Outlook was first launched in 1992. Designed for the busy executive, professional, diplomat, journalist, and interested observer under severe time constraints, this annual offers a succinct analysis of political and economic trends in the countries of Southeast Asia and the outlook for the prospective two years.

In this endeavour, it is impossible not to be overtaken by events. An analysis such as this serves best when it indicates patterns of development, offers some insight into the unfolding complex dynamics, and puts its finger on emerging issues and areas of change. In this way *Regional Outlook* should provide the necessary background for the reader to interpret new information and data.

1999 was another momentous year for the region. Though the economic crisis has abated somewhat and most economies are on the recovery path, several vulnerabilities remain, as highlighted by the unfolding of banking and corporate problems in Indonesia, Malaysia, Thailand, and South Korea. On the political front the major developments have been the Mahathir-Anwar conflict in Malaysia and the political turbulence in Indonesia culminating in the East Timor crisis and the election of a new president and vice-president.

Regional Outlook 2000–2001 was written by a team from within the Institute and without. We thank Emiliano Bolongaita, Jr., Mark Cleary, Derek da Cunha, Nick Freeman, John Funston, Mya Than, Melina Nathan, Leonard Sebastian, Martin Stuart-Fox, and Tin Maung Maung Than for their contributions. We also thank Daljit Singh and Nick J. Freeman for editing the volume.

Professor Chia Siow Yue
Director
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1 November 1999

INTRODUCTION

The year 1999 saw some economic recovery in the countries most affected by the regional crisis, with the exception of Indonesia. But the year also witnessed economic slowdowns in the countries of Indochina and in Myanmar, which in 1998 were thought to be relatively immune to the crisis. This was brought about by the shrinking of investment and trade relations between these countries and the older ASEAN members hit by the crisis.

The year was also marked by dramatic political and security developments in Indonesia. The relatively peaceful parliamentary elections in June 1999 were followed in October by the election of Abdurrahman Wahid as President and Megawati Sukarnoputeri as Vice-President, respectively, both from outside the military-Golkar complex which had dominated Indonesian politics for over thirty years. Thus the country at last had an elected democratic government with the political and moral legitimacy to govern.

But Indonesia will remain a source of uncertainty in 2000–2001. It still faces huge economic and political problems. Among the latter are secessionist pressures, especially in Acheh. In Malaysia the political polarization caused by the Anwar Ibrahim affair has yet to be resolved; the uncertainty will continue into the year 2000, if not beyond.

However, on the whole, the outlook for Southeast Asia for 2000–2001 looks relatively brighter. There is a sense that the worst of the regional crisis is over. The economies seem to be on the mend, even if the banking and corporate problems still remain serious in certain countries. Even Indonesia may manage a small growth of 1 to 2 per cent in the year 2000. It is also possible to be cautiously optimistic about Japan: its economy is recovering from its prolonged recession and seems to have begun real restructuring. The weakening of the dollar against the yen is positive for Southeast Asian growth. In terms of the big picture, global growth is expected to be higher in 2000 because of better demand in Europe and the ongoing recovery in Asia.

Yet the prospects for Southeast Asia must be hedged with two main caveats. The first is that growth in America is not terminated by a sharp correction of its high stock prices and negative saving rates that results in a hard landing for the economy. The second is that there are no major set-backs to Indonesia's recovery and stability.

Despite some uncertainties about the Korean peninsula and the Taiwan issue, on the whole the broader Asia-Pacific security environment does not look threatening. U.S.-China relations have had a roller-coaster ride over the past eighteen months. But it is more likely than not that relations will not be allowed to slide into a hot or cold war that neither side wants.

Different authors have contributed to this volume and we would like to thank them for their contributions. We would also like to thank Mr Sukhvinder Singh for compiling the basic indicators for Southeast Asian economies in the appendices. These have been obtained from various published sources and are included merely as background data that readers may find useful.

Daljit Singh
Nick J. Freeman
Editors

POLITICAL OUTLOOK 2000–2001

THE ASEAN-6

Mark Cleary • Leonard Sebastian • John Funston •
Emiliano Bolongaita, Jr. • Derek da Cunha

Brunei

Not much light has so far been shed on the causes and ramifications of the collapse in 1998 of Amadeo, the company owned by Prince Jefri, the Sultan's brother, other than the formal confirmation by accountants Arthur Andersen in July 1999 that Amadeo had estimated debts of US$3.7 billion against book-value assets of only US$79 million. The implications for the state investment arm, the Brunei Investment Agency (BIA) remain unclear. The conflict between the Sultan and his younger brother Prince Jefri remains evident with Jefri rarely in Brunei and noticeably absent from the Sultan's birthday celebrations in July, traditionally an occasion for a public show of unity. The promised enquiry report, headed by the conservative minister Abdul Aziz has not appeared but direct criticism of the tangled financial affairs of the royal family remains muted because of the continued high esteem in which the Sultan is held. New appointments to the posts of attorney-general and solicitor-general were announced early in 1999, together with a commission to look at law reform although reform of laws relating to the economy were excluded. The elevation of more conservative civil servants and officials to positions of power has continued.

Whilst any form of elections seem a long way off, there has been more open discussion of at least their possibility. In an interview in August, Prince Mohamed spoke of mooted reforms to the Constitution which might include provisions for elections. Alongside some pressures for a more open and accountable government and public service, the concern over the impact of "Western" values remains.

The economic recession has continued to create difficulties in the state. Low oil prices in the first half of 1999 threatened a budget deficit, prompting government cuts in allowances to senior civil servants. However, the welfare budget for the less well-off was actually increased, a sign perhaps of government concern about the impact of the slowdown on its traditional bedrock support. The recession and the collapse of Amadeo have together impacted sharply on the construction and retail sectors — traditionally reliant on expatriate spending and overall trading conditions are, at best, mediocre. New car sales, for example, have fallen markedly and property rents — a major haven of investment for Bruneians — have collapsed.

The successful hosting of the Southeast Asian Games in August was an important boost for both the economy and morale: building on that success through the establishment of a viable tourist market is an important part of the country's diversification programme. Industrial diversification remains a central plank of economic policy. Efforts to establish Brunei as an offshore banking and service centre are still in the realms of rhetoric. Given the problems over Amadeo and continuing uncertainties over the operation of business regulations, attracting significant foreign investment is likely to be a difficult task.

The second half of 1999 has perhaps lightened the economic gloom a little. The

Brunei

Land Area:	5,765 sq. km.
Population:	323,000 (1998 estimate)
Capital:	Bandar Seri Begawan
Head of State:	HM Paduka Seri Baginda Sultan Hj Hassanal Bolkiah Mu'izzaddin Waddaulah
Currency Used:	Brunei dollar
US$ Exchange Rate on 8 November 1999:	US$1 = B$1.67

significant rise in oil prices has been accompanied by an increase in Brunei's output from about 140,000 barrels per day (bpd) to nearly 180,000 bpd. This will eliminate the projected budget deficit and may allow for small increases in the development budget. The continued success of liquefied natural gas (LNG) exports to Japan (the 4,000th LNG tanker cargo was dispatched in early September) and the fact that the contract is paid in U.S. dollars will also help the national accounts. Whether more buoyant oil and gas revenues can provide the catalyst for a degree of both political and economic reform in the state remains to be seen. On the basis of past performance, this does not seem very likely.

Indonesia

When the Soeharto era concluded in May 1998, Indonesia was in a perilous state. National institutions were discredited and it was imperative that the new administration of President B.J. Habibie implement political and economic reform. Under President Habibie there was some progress in reform. For example, the Indonesian Bank Restructuring Agency (IBRA) was beginning to sort out the complex problem of debt restructuring and recapitalization for the embattled banking sector. Legislation designed to deal with issues related to corporate restructuring such as the new bankruptcy laws had been initiated. Naturally, no one expected that the process would be problem-free. There were controversial judicial decisions regarding the new bankruptcy law. However, the overall impression was one of positive change. Furthermore, a remarkably free and peaceful general election in June 1999 had set the stage for future political stability by holding out the possibility that a new array of stronger political institutions enjoying legitimacy would emerge.

However, after September 1999, the outlook deteriorated considerably because of a scandal involving Bank Bali. The scandal revolved on the payment of more than US$70 million by Bank Bali to a firm run by the ruling Golkar party deputy treasurer, Seya Novanto. The funds were to help recover a large inter-bank claim owed to Bank Bali by financial institutions closed by the government. However, under the government's bank guarantee scheme, such funds should have been automatically reimbursed to Bank Bali without recourse to a third party.

President Habibie initially resisted demands for a full enquiry, fearing the possibility that it could lead to damaging revelations. Such a stance gravely undermined his national standing and threatened a rift within Golkar. Furthermore, apart from the Golkar deputy treasurer implicated by the scandal, the Finance Ministry, IBRA, and Bank Indonesia (the central bank) also had their reputations tarnished. Opposition politicians were quick to point out that the funds in question were to be used for President Habibie's re-election campaign. The ability of critical national institutions such as the central bank and the presidency to do their jobs was called into serious question by the Bank Bali scandal, gravely impeding the process of economic reform. Also the scandal was to result in a suspension of IMF (International Monetary Fund) disbursements pending appropriate action by the Indonesian authorities, including the public release of an audit report on the subject by Pricewaterhouse-Coopers.

These scandals coupled with developments in East Timor had improved the chances of opposition leaders like Mrs Megawati Sukarnoputri and Mr Abdurrahman Wahid to garner the support each required to unseat President Habibie in the October 1999 presidential elections.

The East Timor crisis had brought a new range of problems pertaining to how Indonesia handled provinces with a separatist agenda and more significantly, issues relating to how a civilian leadership could control the activities of the military. The main reason the Habibie government did not act to stop the intimidation and killing in East Timor despite considerable international pressure was that it was simply powerless to intervene in a policy area that the military defined as solely within its jurisdiction. The signs were ominous for the future. If the new president elected on 20 October 1999 was unable to control the military, Indonesia could arch towards a situation of protracted conflict between a civilian leadership and the military, a scenario that could ultimately result in military rule.

In October the People's Consultative Assembly (MPR, or Majelis Permusyawaratan Rakyat) convened to elect the president and vice-president. The MPR is an Electoral College of 700 members dominated by the country's political élite. Only two-thirds, or 462 members, are elected. The appointed members comprise thirty-eight from the Indonesian Defence Forces (TNI), 135 from the provincial legislatures, and sixty-five from special-interest groups. The absence of a front runner for the presidency sparked intense negotiations and shifting alliances. Significantly, the fundamental issue at hand was the structure of the Indonesian political system, which has served well to preserve the élite. It was this very structure that influenced the political manœuvring in the MPR and determined the selection of the next president rather than the operation of popular will as expressed in the June elections.

While in the previous Soeharto-era Indonesian elections there was little question as to who would be chosen President, the October election essentially centred on three factions — those related to the old regime (Golkar), the Muslim parties under a loose alliance called the

Indonesia

Land Area:	1,919,443 sq. km.
Population:	Approximately 212 million (1998 estimate)
Capital:	Jakarta
Type of Government:	Presidential government based on the 1945 Constitution
Head of State:	President Abdurrahman Wahid
Next Election:	June 2004 (parliamentary) November 2004 (presidential)
Currency Used:	Rupiah
US$ Exchange Rate on 8 November 1999:	US$1 = 6,850 rupiah

central axis (*poros tengah*), and the nationalist reformers (PDI-Perjuangan). The MPR elected Abdurrahman Wahid as President on 20 October over Megawati Sukarnoputri by a vote of 373 to 313. The entire presidential race revolved around two issues. First, the need to prevent the country disintegrating and second, the preservation of élite cohesion. In this context, Mrs Megawati's desire to claim that her legitimacy came from the masses on the streets and her reliance on popular unrest as a political tool, forced the large proportion of the élite to oppose her election. Mr Abdurrahman's victory was the result of compromises over how power would be shared among factions of Indonesia's élite. Each of the factions would have a major role in the structure of governance: Muslim leader Amien Rais of the National Mandate Party is speaker of the MPR; Akbar Tanjung, Chairperson of the Golkar Party, is speaker of the DPR (Dewan Perwakilan Rakyat, or the Lower House); and PDI-P's Megawati Sukarnoputri is Vice-President. The military received six positions in the newly constituted Cabinet, which was announced on 26 October 1999.

Compromise seemed to be the order of the day when the new Cabinet was unveiled, its objective being the need to promote reconciliation before tackling political reform. Though failing to deliver on earlier suggestions that Mr Abdurrahman would slash the size of government, the new Cabinet reflected more the need to reward political allies and respond to public demand for action in areas such as human rights. Furthermore, the composition of the Cabinet was calculated to calm separatists tensions by a substantial increase in ministers from outside the Java heartland. It remains to be seen whether President Abdurrahman can mould this disparate group of individuals, who represent such a wide array of opinion, into a coherent team capable of working effectively together as policy-makers and administrators. There is no doubt that President Abdurrahman will work hard for his people but concerns abound as to whether he can shape his government into an effective instrument of policy considering his hands-off style of management and the fragile state of his health.

Balancing the various interest groups in Cabinet will prove formidable but the hope is that Mr Abdurrahman, who is a skilful and intelligent politician, will retain enough genuine mass appeal to successfully restore civilian control over Indonesia's independent-minded military and press ahead with urgent economic reform. Prior to attaining office, both Mr Abdurrahman and Mrs Megawati, through their statements, have portrayed themselves more as economic nationalists with a conservative reform agenda, though economic realities may force them to revise this stance.

Indonesia has made a fresh start but there are daunting problems. At this point, no pundit can make an assured prediction as to how well the country will come through. The hope is that President Abdurrahman and his new government will gain broad support. In that regard, the appointment of a national reconciliation Cabinet that draws ministers from across the spectrum may prove to be a blessing in disguise. More importantly, the hope is that the new Cabinet will be capable enough to continue the process of reform begun in 1998 and strong enough to force the military to relinquish its role in politics and recognize the authority of the civilian government.

Malaysia

When Dr Mahathir sacked deputy Anwar Ibrahim in September 1998, many analysts believed Anwar would soon be marginalized, like previous prime ministerial adversaries. A year later, opinion is divided between those who believe Dr Mahathir is regaining control and reinforcing existing policies and institutions, and those who see the beginnings of a fundamental change in Malaysian politics.

What is not contested is that events since Anwar's dismissal have been the most dramatic ever in Malaysia's political history. Tens, perhaps hundreds of thousands took part in protest meetings across the peninsula, often in defiance of police firing tear gas and chemically laced water. Around 1,200 were arrested. The public has been transfixed and deeply divided by the actions against Anwar — his arrest at gunpoint, bashing by the chief of police, and sensational sexual allegations and court cases. Police reports and mega-dollar law suits against political opponents suddenly became a norm of political life. And before elections in November, Dr Mahathir was forced to reshuffle his Cabinet no less than three times.

Those who see a continuance of the status quo do, however, have strong arguments. The police were able to control demonstrations by the use of force. No top leader in the United Malays National Organisation (UMNO), the dominant party in the governing coalition, followed Anwar to the opposition. Government leaders have not challenged Dr Mahathir's position as head of UMNO and government, or the policies of Malaysia Inc. closely identified with him. UMNO scored a convincing win in the Sabah state election in March, then in November led the National Front to yet another two-thirds parliamentary majority.

An additional argument supporting the status quo view is that many aspects of the

Malaysia

Land Area:	330,434 sq. km.
Population:	21 million (mid-1998 estimate)
Capital:	Kuala Lumpur
Type of Government:	Federated parliamentary democracy with constitutional monarch
Head of State:	His Majesty the Yang di-Pertuan Agong Tuanku Ja'afar
Prime Minister:	Dato' Seri Dr Mahathir bin Mohamad
Next Election:	By August 2000
Currency Used:	Ringgit
US$ Exchange Rate on 8 November 1999:	US$1 = RM3.8

current dispute mirror previous conflicts, including contests between UMNO and Parti Islam (PAS) and the split in UMNO in the late 1980s. There have, for instance, been incidents where village Malays have boycotted the shops and even mosques of opposing groups. This is not the first time that Islamic teachers and youth groups, and other tertiary-educated Malaysians have aligned with non-governmental organizations (NGOs) and opposition parties against the government, or that NGOs have played an active role in politics. And opposition parties co-operated against the ruling coalition in the 1990 election, much as they co-operated over the past year.

Yet there have been important differences this time around. One manifestation was the way both Dr Mahathir and his policies came under review. Malaysian prime ministers have been criticized in the past, but this has nearly always stopped short of a personal attack — Dr Mahathir's widely distributed letter to former Prime Minister Tunku Abdul Rahman in 1969 is a rare exception. A new mood was manifest after the UMNO meeting that expelled Anwar. In the early hours of 4 September 1998, some in the crowd waiting outside threw used paper cups at Dr Mahathir. In subsequent weeks, street demonstrators carried banners strongly criticizing the Prime Minister and calling for his resignation. Similar messages appeared on the Internet. Early in 1999, Malaysia's foremost novelist Shahnon Ahmad published a novel with the short title *Shit*, directed at the Prime Minister. Although criticized by many as obscene, it has been far and away Malaysia's best-selling novel, with over 120,000 copies already sold. And besides personal criticisms of Dr Mahathir, nearly all Malaysia's major institutions and its system of government (Malaysia Inc.) came, for the first time, under the public microscope. Critics found an outlet for their views on the Internet and the PAS *Harakah* (published twice a week), circulation of which soared from 65,000 to around 300,000.

Current social divisions also run deeper than before. NGOs and disaffected Muslim and youth groups have linked directly with opposition political parties. Political leaders repeatedly warned public servants, schoolteachers, and the military that they should not oppose the government. Non-Malays were not as involved as Malays, but participated through NGOs or the Democratic Action Party (DAP), and their grassroots organizations issued three substantial memoranda, including the widely publicized "Seventeen Points". The use of police force, arrests (including under the Internal Security Act which allows detention without trial), and threats failed to intimidate and end opposition, as had been the case in the past. When street protests paused, other forms of resistance — particularly using the Internet — were taken up.

Opposition parties — PAS, the new Parti keADILan Nasional (National Justice) headed by Anwar's wife, the smaller socialist Parti Rakyat (People's Party), and the DAP — organized themselves as the Barisan Alternatif (Alternative Front), the first united front of all major opposition parties. This encountered numerous difficulties, including organizational and other problems faced by the recently formed keADILan, and ideological conflict over PAS objectives for an Islamic state. But coalition members worked closely on policy and tactics, issued numerous joint statements, and began articulating a detailed agenda for change in Malaysia. The decision to nominate Anwar as their choice for prime minister should they win power (after taking the necessary steps to secure his pardon) provided them with a credible leader, and put them on a direct path of confrontation with the government.

Within UMNO all was not as cohesive as it appeared. Dr Mahathir continued to keep everyone guessing about when he would retire, and who his successor might be. Abdullah Badawi was belatedly appointed Deputy Prime Minister, but without any guarantee of sufficient support either within the party or from Dr Mahathir to ensure his succession. At lower levels, tens of thousands left the party to join keADILan and PAS. Repeated anecdotal reports refer to UMNO facing difficulties obtaining quorums at branch and divisional level meetings, and attracting only small crowds to its public rallies. Deep divisions within the Women's wing were revealed when a major restructuring ordered by its leader in early August had to be rescinded a few days later after Dr Mahathir intervened. UMNO's strong win in Sabah was somewhat misleading — contributing factors included an electoral redistribution, a divided opposition, and less interest in the Anwar issue than on the peninsula.

What brought about these changes? Partly the economic crisis, and a perception that the policies of Malaysia Inc. — particularly the close and opaque links between the government, the banks, and the corporate sector — needed to change. Some aspects of Dr Mahathir's handling of this crisis were also badly received, though his introduction of currency controls met a favourable populist reaction. The rapid expansion of the middle class, particularly a Malay middle class, has also increased the pressures for a more open and consultative style of government. In addition, two distinctive aspects of this crisis have been important — the nature of actions taken against Anwar, and the strength of Anwar's counter-attack.

The manner in which Anwar was ousted has no parallel. He was dismissed and declared guilty of homosexuality and other sexual misdemeanours by Dr Mahathir before the courts had a chance to rule on this. No former leader was ever publicly shamed as Anwar has been — contravening deeply entrenched Malay values against such behaviour. However, the charges are widely disbelieved, and the legal processes perceived as stacked against Anwar — so much so that when he was found guilty of corruption (abuse of power) in April 1999, a Malay academician, A.B. Shamsul, commented: "Anwar has cast doubts over the system, and he has defended his character. The public sees no damage done to his public, populist persona" (*Asiaweek*, 23 April 1999, p. 24). These circumstances have ensured that Anwar has not been forgotten, as previous leaders who left UMNO have been.

Secondly, Anwar has proved a more difficult target than any of his predecessors. His influence extends beyond UMNO, and is particularly strong among idealistic youth in organizations such as the Islamic ABIM, which he once headed. He has maintained the initiative with a string of corruption allegations against top government leaders, forcing the government repeatedly to respond to his charges.

Conflict between the government and opposition culminated in the November elections. The eight-day campaign lived up to its billing as the dirtiest ever, with several protests lodged by an independent election watch organization. Government leaders promised economic prosperity, while warning about the dangers of recolonization and political instability if the government were not given its customary two-thirds majority. An advertising blitz on television and the mainstream press warned of the dangers of Indonesian-style riots and Islamic fundamentalism. Much attention was also focused on Anwar, with advertisements alleging he had lied, and was distrusted by his wife. A videotape including "confessions" (all subsequently retracted) by alleged homosexual partners of Anwar was widely circulated a few days before the election, followed by claims that Anwar had beaten his wife, and newspaper photos of Anwar allegedly dancing with an unidentified female. Opposition supporters put on the Internet a fake letter from Dr Mahathir asking for Israeli support.

The government convincingly retained its two-thirds majority, winning 148 of 193 seats, but did not gain the mandate it had hoped for. Victory came because of strong support from non-Malays, and the Borneo states of Sabah and Sarawak. However, overall support declined from 65 to 56 per cent of votes cast, and UMNO suffered one of its greatest electoral setbacks. UMNO lost fifteen seats, including four ministers and five deputy ministers, and all top party leaders had their majorities severely cut. In the Malay heartland PAS swept all before it in Kelantan and Terengannu. KeADILan polled strongly without taking many seats, but Anwar's wife registered a strong victory in Anwar's former constituency. The DAP made only limited gains as non-Malays stayed with the ruling party, and is reassessing its place in the Barisan Alternatif.

Pressures for a change to government leaders and policies will therefore remain. With half the Malay electorate supporting the opposition, UMNO must re-examine its direction in the lead-up to the election of new office bearers in the year 2000. The opposition also has problems — particularly the issue of attracting greater non-Malay support — but it has been strengthened by recent events, and will maintain pressure on the government throughout the coming five-year parliamentary term.

ASEAN AMIDST THE REGIONAL CRISIS

By Daljit Singh

Economic co-operation

The regional crisis has not deviated ASEAN from its economic co-operation agenda.

Indeed, the implementation of the ASEAN Free Trade Area (AFTA) has been accelerated. The six original member countries have agreed to reduce tariffs to 0–5 per cent for 90 per cent of their products by the year 2001, which would account for 90 per cent of intra-ASEAN trade, and for all products by 2002. This in effect means bringing forward the completion of the original AFTA target by one year. New members of ASEAN are to maximize their tariff lines between 0 and 5 per cent by the year 2003 for Vietnam and by 2005 for Laos and Myanmar. Cambodia, which became a member of ASEAN only in 1999, is given the deadline of 2010 to achieve its target.

Member countries are working towards zero tariffs for all products — by 2015 (or even earlier) for the original six member countries and by 2018 for the new members. Further, the ASEAN Secretariat is to begin work on identifying non-tariff barriers to trade, so that their elimination can be given priority.

The Framework Agreement on ASEAN Investment Area (AIA), which was signed in October 1998, came into force in June 1999. Under it, all industries in the manufacturing sector, subject to certain exclusions, will be open to ASEAN investors who will be granted national treatment. The AIA agreement will in the future be expanded to cover services incidental to manufacturing, agriculture, forestry, fisheries, and mining.

In the area of services liberalization, a final package of commitments was concluded in October 1998. At the Hanoi summit, leaders agreed to launch a second round of services liberalization negotiations in 1999, to be completed in 2001.

Progress has been made in financial sector co-operation, considering the fact there was hardly any co-operation in this area before 1997. Since the first meeting of ASEAN Finance Ministers in March 1997, there have been annual and special meetings of these ministers, spurred no doubt by the regional crisis. A significant development has been the establishment of the ASEAN Mutual Monitoring System. If the scheme works as originally intended, it will involve peer review and frank exchange of views and information in order to prevent future financial crises.

The criticisms relating to ASEAN's handling of the regional financial crisis have not been entirely fair. ASEAN as an organization was not geared to cope with such a crisis. While it had over the years advanced co-operation in the area of trade, the first Finance Ministers Meeting was held only in March 1999.

Nevertheless, ASEAN central banks did co-operate and provide support when speculators first attacked the Thai baht in May 1997, but they were unable to cope with subsequent attacks in July. The regional crisis was caused by a combination of external factors and national weaknesses in relation to both of which ASEAN as an organization could do little or nothing. ASEAN central banks could not possibly have marshalled sufficient resources to deal with the speculative attacks or to bail out the countries in trouble, which only the IMF could do. And ASEAN as an organization was not in a position to deal with the national weaknesses such as inadequate supervision of the banking sector, poor corporate governance, and cronyism, which came strictly within the purview of national governments — although it could and did urge member countries to follow sound financial and corporate practices.

However, notwithstanding these handicaps, ASEAN was active in calling upon the major countries and the IMF to help resolve the crisis. And it sought, correctly, to maintain confidence in the region by supporting the IMF efforts and reiterating its commitment to economic and trade liberalization, though this stance was in part undermined by negative developments in certain individual member countries.

Set-backs

Even though the regional crisis has not impacted negatively on ASEAN's economic co-operation agenda, there is no doubt that generally ASEAN has suffered set-backs over the last few years.

ASEAN members today are economically weaker than they were before the crisis, which adversely affected the organization's image to the outside world. The high economic growth rates of the region gave a certain gloss to ASEAN as a successful organization of an economically successful region. But recently the international media have been focusing on the darker side of the "Asian miracle".

Various developments have contributed to an impression of disarray. Key member countries like Indonesia and Malaysia have been politically less stable. Indonesia, which has been viewed as a "leader" in ASEAN, has been preoccupied with domestic problems. The problems brought about by the economic crisis made countries more inward-looking, testy, and sensitive, and this in part accounted for the public acrimony in relations between certain member countries during 1998.

These developments came at a time when ASEAN was already facing problems associated with its expansion. The inclusion of Myanmar as a member of the Association and the lack of any tangible progress in that country in the areas of human rights and domestic political evolution affected ASEAN's relations with the West and its standing among civil society groups in some ASEAN countries themselves. The expansion increased the diversity and complexity of ASEAN, especially in the levels of economic attainments and in political cultures and outlooks.

Prospects

ASEAN's fortunes can be expected to improve as member countries recover form the economic crisis. However, it should be borne in mind that ASEAN's importance is more for security than economics. ASEAN will remain crucial for keeping inter-state peace between members. It has continued to play the key role in the ASEAN Regional Forum (ARF), and in the absence of a better alternative that is acceptable to all members of the ARF, it can be expected to continue to do so.

However, the events of the last few years have also highlighted the limitations of ASEAN in the new post–Cold War world. With the shift in the West's agenda more towards human rights and democracy, ASEAN is less in a position to leverage on the West to attain its goals than it could during the Cold War. The combined economic and military power of ASEAN countries is small, even puny, in relation to the major powers. And it is not a supranational body, rather a grouping of sovereign independent countries that guard their sovereignty.

ASEAN has to continually make itself relevant and useful to the outside world to obtain the momentum to move forward. It has to continue to reform and open up its economies so that the world's leading corporations want to invest in Southeast Asia rather than in China, India, Eastern Europe, or Latin America. ASEAN also needs to co-operate more closely to deal with the problems of Southeast Asia, whether financial, environmental, or others.

East Asia is in the process of a profound change. In the final analysis, the destiny of ASEAN will be shaped as much by these changes as by its own actions or omissions. The forces of change include globalization, the policies of and relationships between the major powers, the evolution and alignments of bigger regional groupings, and political developments within the countries of Southeast Asia themselves.

Philippines

The Philippines enters the millennium on a relatively strong economic footing, but with a political situation tinged with some unease. The World Bank's *Annual Report 1999* estimates that among the countries in crisis-battered Southeast Asia, the Philippines — along with Malaysia and Thailand — will show "positive, though slow, economic growth". In the first half of the year, the economy grew by about 2.4 per cent. Despite some problems such as the stagnating construction and real estate sector, the continuing weakness in bank lending and a sizeable budget deficit, there appears to be a consensus that the country will continue to recover.

However, this consensus is a cautious one and contingent on the country reducing political polarization and executing effective public policies. Political tensions have increased lately. In August 1999 former President Corazon Aquino and Manila Archbishop Cardinal Jaime Sin led a mass demonstration to protest decisions of the Estrada government in three areas: the President's proposals for amendments to the 1986 Philippine Constitution, his attacks against the media, and the government's negotiating stance on the recovery of "the ill-gotten wealth of the Marcoses". This mass demonstration was intended to parallel a successful effort in 1997 when former President Ramos' plan for charter change (called the "Cha-cha") was rebuffed. However, instead of backing off from what seemed to be another popular protest, Estrada went on the offensive by supporting a counter-demonstration. Organized ostensibly as a birthday celebration for Estrada's spiritual adviser, the President appeared at the rally calling for public support for his proposals for constitutional reforms. Because this rally drew much bigger crowds than the opposition (in part because of free food), Estrada blunted the effects of his critics' charges. But the controversy did not end there.

Estrada insists that he is calling for amendments to the Constitution primarily for economic reforms. He wants to remove restrictions on foreign ownership of land and utilities and to curb the powers of the Supreme Court in adjudicating on economic issues. There are three immediate problems that he faces with regard to implementing these proposals. The first is that it runs into a wall of nationalism that is still fairly high among Filipinos. Second, the proposals call for changes to the 1986 Constitution, which many — particularly former President Aquino and Cardinal Sin — consider sacrosanct. These two have said they would not like to see their efforts in crafting that constitution go down the drain. They also fear the precedent of calling for constitutional changes each time there are perceived major problems. Third, many Filipinos suspect that the proposals for economic reforms are just a cover for a hidden agenda for political change, particularly the removal of term limits for elected officials (including the prohibition on presidential re-election).

As both sides to the constitutional controversy battled, the markets became nervous. The peso came under selling pressure and the stock market dropped. Some analysts predicted that the political trends would lead to a polarization in politics that would eventually affect the Estrada administration's ability to govern effectively. It must be acknowledged though that there was also other negative economic news during the turbulent weeks of August, notably the poor performance of corporate giant Philippine Long Distance Telephone (PLDT) Company.

Philippines

Land Area:	300,000 sq. km.
Population:	77 million (1998 estimate)
Capital:	Manila
Type of Government:	Republic, with American-style presidency and two-chamber Congress
Head of State:	President Joseph Estrada
Next Election:	May 2004
Currency Used:	Peso
US$ Exchange Rate on 8 November 1999:	US$1 = 40.12 pesos

Yet it could be argued that investors temporarily over-reacted to the political situation in the Philippines, which has been relatively contentious because of the country's pluralistic politics. Economic data released in August 1999 showed that the country was on the upswing: its trade surplus jumped and export earnings grew by 19.5 per cent. Imports also rose by 18.1 per cent, a good sign of the continuing strength of the country's manufacturing sectors that rely on imported components.

There are, nevertheless, some concerns that the Estrada administration is responding wrongly to the consequences of the economic crisis. Among the criticisms is that the Philippines may indeed be recovering, but it is doing so without reforms to some of the underlying factors that weakened the country in the first place. Chief among these concerns is the resurgence of cronyism. Take, for instance, the government's continuing support for the survival of Philippine Airlines (PAL) at the cost of keeping the industry closed to new players and foreign investments. The government has taken up the cudgels for PAL and imposed quantitative restrictions on the traffic of foreign airlines. This move caused consternation among foreign airlines and precipitated protests from Taiwan. The majority shareholder of PAL, Lucio Tan, is an associate of the President.

Another recent case was the purchase of majority ownership of the second largest bank in the country (Philippine Commercial and Industrial Bank) by the sixth largest bank (Equitable Bank). What made this case newsworthy — apart from being one in which a David ends up swallowing a Goliath — is the participation of state financial institutions in a transaction involving another presidential associate (Equitable's George Go). A third troubling case is the government's disinterest in monopolistic activities of the sugar industry, which caused prices to rise and supply to dwindle in recent months.

Other serious concerns about the government are its apparent willingness to use instruments of state and its allies to silence critics. The buy-out and subsequent closure of the *Manila Times* following a series of stinging attacks against the President would not have been quite disturbing had it not been for the fact that the buyers were linked to friends of the President. The President's disdain for the *Philippine Daily Inquirer* is well known, and he has banned its reporters from press coverage of presidential events. What startled the *Inquirer* was the advertising boycott being urged by friends of the President. Many institutional advertisers, including government corporations, cancelled advertising arrangements with the *Inquirer*. There were also reports that the other holdings of the Prieto family, which owns the *Inquirer*, were being subjected to fault-finding tax audits. As a well-known investigative journalist said: "Ownership is the true chink in the armour of the mighty press ... it is a credit to President Estrada's perceptiveness that he has realized this so early in his term."

As for the crime problem, Estrada appears to have tackled it with some success. Crime, including kidnapping, has decreased and has not dominated the headlines since he took office. The government credits this partly to its mailed-fist approach as well as the restoration of the death penalty. Estrada has also reiterated his commitment to mass housing. In October he fired his top housing official and appointed himself housing "czar" to underscore the priority he is placing on the issue.

The Secretary of Defence noted in 1999 that the communist insurgency had gained strength in numbers, partly due to the effects of the economic crisis. Privately, some military officials disputed the claim, contending that the insurgency remained fragmented and too feeble to be consequential. With regard to the Muslim insurgency in Mindanao, Estrada has taken a tough stance in negotiations with the Moro Islamic Liberation Front (MILF). The peace talks continue, but no settlement is in sight. Some government officials confide that they have little manœuvring room in the negotiations, because of the concessions they made in the government's peace pact with the Moro National Liberation Front (MNLF) in September 1996.

On the international front, Estrada is continuing the economic diplomacy of former President Ramos by actively promoting abroad the Philippines' attractions for foreign investments. In foreign policy, the administration is warily watching developments in the disputed Spratly Islands. The increasing military presence of China in various islands and the construction of structures (including a runway on Woody Island) have raised the level of concern in Manila. The erection by Malaysia of a two-storey building on Investigator Shoal added to Manila's concerns. The Philippines has protested to both China and Malaysia and said it too is considering building structures on some of the islands.

Because of the various unresolved issues facing the Estrada government, it is likely that the political situation in the Philippines in 2000 will be somewhat contentious. Allegations by the opposition and counter-allegations by the government will be a feature in the country's still fairly free-for-all political atmosphere. Both sides will be stepping up their rhetoric to sway public opinion to their sides, a situation that might make foreign investors nervous.

According to the 1999 *World Investment Report* by the U.N. Conference on Trade and

Development (UNCTAD), foreign direct investments in the Philippines in 1998 grew by over 40 per cent compared with 1997's figures. Indeed, as a U.N. representative said: "The Philippines defied regional trends in 1998." While international investors in 1999 may have discounted the relatively noisy Philippine political situation on account of its democratic politics, business confidence cannot be taken for granted by the government. Policy reversals and preferential decisions will make the cost of investing and doing business in the country more expensive. In this regard, there are ample reasons for the President and the opposition to reduce their political pursuits and focus on economic reforms. The President himself must not only do the right things, but must also be seen to be doing so. It would be unfortunate if, in the words of a Philippine scholar, the economic crisis recently suffered by the Philippines will have been merely "a crisis without consequence, a recovery without reform".

Singapore

The economic policies implemented by the Singapore Government during the years 1998 and 1999 to lift Singapore out of the economic crisis which it and the rest of Southeast Asia found itself in, began to bear fruit in the second quarter of 1999 when the real economy showed signs of making a not insignificant rebound. The momentum of that rebound followed through for the rest of 1999, with the government indicating that it was prepared to restore, during the first half of 2000, part of the cut of employers' contribution to the Central Provident Fund, which had been reduced by ten percentage points on 1 January 1999.

With the economy on the mend, the government spent some part of the rest of 1999 setting out its vision for Singapore in the new millennium. Much of that vision involves the creation of a knowledge-based economy to secure Singapore's future in an increasingly economically competitive global environment. In that vision, the development of people's potential would be placed at a premium. This was set out in the President's Address at the opening of the second session of the ninth Parliament in October 1999. The Address came just one month after Singapore's second Elected President, Mr S.R. Nathan, a former senior civil servant, assumed office. He was elected unopposed, in contrast to the first election for the post held six years earlier, when the government ensured a contest. The manner in which Singapore's second Elected President assumed office was, however, only mildly controversial as compared with another issue — foreign talent.

The government's decision to actively invite foreign talent to Singapore continued to be a focus for much public and private debate during 1999 and is set to remain in the public consciousness in the initial years of the new millennium. The fact that qualified foreigners actively contribute to Singapore's economic well-being is accepted by most Singaporeans, for in the final analysis almost all Singaporeans will benefit in some way or another from the influx of such talent. However, feedback received from members of the public has indicated a strong sentiment that foreign talent only be recruited to fill senior or top positions in both private and public sector organizations, or in those occupations (such as the nursing profession) where there is a clear paucity of qualified locals. In other words, there exists a general disinclination by most Singaporeans that the floodgates be thrown open, allowing foreign talent to compete directly with Singaporeans for jobs across the spectrum of professional occupations.

Another aspect of disquiet among Singaporeans relates to the issue of benefits versus responsibilities, specifically that while all able-bodied male Singaporeans are required to serve between two and two-and-a-half years of national service, principally in the Singapore Armed Forces, foreigners residing in Singapore (including many, although not all, permanent residents) are not subjected to this responsibility.

If foreign talent is one issue the government has to manage in the years ahead, another could be a perception of a gradually widening income gap between the top 20 per cent or so of the socio-economic spectrum and those further down the spectrum. It may be a paradox that after succeeding in narrowing class divisions over the past four decades, now an unintended effect of the development of a knowledge-based economy could be a widening of such divisions between those who are technologically savvy and those who are not. It is an issue that the opposition to the ruling People's Action Party (PAP) will likely seek to exploit in the electoral contests to come. However, whether it will be able to translate such efforts into losses for the ruling party is uncertain, particularly in view of the PAP's stunning success in pre-empting similar anti-PAP issues in past elections.

Extrapolating from events in 1999, it is also clear that the initial years of the new millennium will see a third-generation political leadership begin to slowly take over from the second generation. Indeed, that was more-or-less indicated by Prime Minister Goh Chok Tong in his National Day Rally address in August 1999 when he disclosed that Deputy Prime Minister Brigadier-General (B.G.) Lee Hsien Loong had essentially been identified as his likely successor by the third-generation ministers in the Cabinet. Mr Goh had also said that

Singapore

Land Area:	647.5 sq. km.
Population:	3.87 million (mid-1998 estimate)
Capital:	Singapore
Type of Government:	Parliamentary democracy
Head of State:	President S.R. Nathan
Prime Minister:	Goh Chok Tong
Next Election:	By 2002
Currency Used:	Singapore dollar
US$ Exchange Rate on 8 November 1999:	US$1 = S$1.67

by the time he took a "step back", B.G. Lee would be in his fifties and "mellowed". That would suggest that B.G. Lee will adopt a far higher profile leading up and into the next general election, expected to be held by 2002. It could well be that Mr Goh will lead the country into the next election and then sometime during the term of the new Parliament hand over the reins of government to his successor.

Outside of the leadership issue, which has now been largely clarified, it is expected that politics in the city-state will principally be unexciting and, indeed, quiescent over the next few years. The opposition political parties are in disarray and are a much-diminished force as compared with what they were in the mid-1990s. It can be expected that in the run-up to the next general election, opposition personalities like Dr Chee Soon Juan of the Singapore Democratic Party and Mr J.B. Jeyaretnam of the Workers' Party will attempt to establish more of a public presence. However, they and the rest of the political opposition face a ruling party that is firmly entrenched in the body politic, and whose support base is unlikely to experience any significant erosion for some time to come.

In sum, it can justifiably be said that Singapore has readied itself in the economic and political realms for the challenges of the new millennium, including managing some of the socio-political fall-out from the building of a competitive knowledge-based economy. Singapore will continue to enjoy political stability and relative tranquility into the new decade.

Thailand

In August, Thailand mourned the death of an illustrious son, Dr Puey Ungphakorn. He was a democrat, twice forced to flee the country because of his opposition to military dictatorship. He was a humanitarian, one of the first to organize academics and university students to assist the rural poor. He was an outstanding technocrat who built the Bank of Thailand into Asia's most respected central bank during his twelve years at its helm, before its recent spectacular denouement. And above all else, he was incorruptible. He personified the virtues that post-crisis Thailand has sought to entrench in its political system.

The past year was remarkably calm by Thai standards, belying many predictions that the financial crisis would exacerbate political instability. Prime Minister Chuan Leekpai reshuffled his cabinet twice — once because a minor party's cabinet membership was threatened by legal technicalities, and the second because another minor party disintegrated — but changed no significant portfolios. Chuan also maintained a degree of coherence by placing all major portfolios in the hands of his Democrat party.

The military, long the *bête noir* of democratic development, stayed well in the background. Chuan's occupation of the defence portfolio (only the second civilian in the post) reinforced the concept of civilian dominance. New army head from October 1998, General Surayud Chulanont, reaffirmed the military's willingness to stay outside the political arena, and became the first general to resign from the Senate in support of this principle.

Thailand's revered King celebrated an auspicious seventy-second birthday in December 1999, and remained a force for stability. He was, however, forced to reduce public engagements because of ill health, which was a matter of considerable public concern.

In the first quarter of 1999 the government began to appear tired in the face of a stream

Thailand

Land Area:	514,000 sq. km.
Population:	60.6 million (1997 estimate)
Capital:	Bangkok
Type of Government:	Parliamentary democracy with constitutional monarch
Head of State:	King Bhumibol Adulyadej
Prime Minister:	Chuan Leekpai
Next Election:	By 2000
Currency Used:	Baht
US$ Exchange Rate on 8 November 1999:	US$1 = 38.75 baht

of continuing bad economic news, and a succession of minor scandals. In March the two economic czars — Finance Minister Tarrin and Commerce Minister Supachai — engaged in an unseemly spat, more over personality differences than policy, bringing the Democrats to their lowest ebb. Around the same time, strong passions were aroused when the public learnt of an honorary award to discredited former Prime Minister Field Marshal Thanom, though this was dampened fairly quickly when Thanom assumed the mantle of peacemaker and declined the honour. Around early May, economic indicators changed, ratings agencies upgraded Thailand, and the prospects of a "third" Chuan government suddenly looked realizable. From mid-year the waters were again muddied by continuing problems in the financial sector, and government missteps in areas such as press freedom, but the government remained firmly entrenched.

What were the reasons for such stability? First was the absence of any real alternative. General Chavalit was the most likely candidate, but memories of his stewardship ending in disrepute in November 1997 remained strong. Billionaire Thaksin Shinawatra's fortunes ebbed and flowed, but he failed to maintain momentum after the much-hyped launch of his Thai Patriotic Party in mid-1998. Secondly, Prime Minister Chuan's personal reputation for probity and honesty remained intact. Although the media often found him wanting in decisiveness, opinion surveys continued to show strong public support. Finally, media criticisms focused more on the style in which government was conducted — particularly the failure of the government to communicate — than government outcomes. These factors should continue to favour the Democrats in the new millenium, as long as the party can avoid the type of internal conflicts that have brought it down in the past.

The Chuan government also took large steps towards implementing economic and political reforms. The 1997 financial crisis had heightened awareness of the need for reform, and in some cases this was mandated by a new Constitution (October 1997) and complementary legislation such as the Official Information Act (1997).

In its first sixteen months, until March 1999, the government passed 121 laws — an unprecedented flurry of legislative activity — and the momentum was sustained later in the year. These focused on economic reform, including bills covering issues such as bankruptcy, competition policy, money laundering, alien businesses, the land code, labour, privatization, and educational reform. On the political side, legislation included the setting up of an independent Election Commission together with supplementary electoral rules, and the establishment of two important independent institutions, the National Counter Corruption Commission and National Human Rights Commission.

Legislation led to several changes in political practice over the past year, including the following. Cabinet members had to declare publicly incomes for themselves and their immediate family. A corruption scandal (relating to the government's purchase of overpriced medicine) was exposed by a citizens' initiative facilitated by constitutional provisions allowing the impeachment of officials upon a petition of 50,000 electors. Threats of a similar petition helped expose other corrupt activities. Members of the public were able to use the Official Information Act to check government records on sensitive issues such as admission to select schools. Pre-empting recourse to this act, the military released a highly classified summary of a report on the Black May massacre of civilian demonstrators in 1992. Major political parties received allocations of public money, and were given free radio airtime to explain policies.

Leaders of government and civil society were also preoccupied with improving "governance", both at the state and corporate levels. Seminars and workshops were held regularly throughout the country. Among the staunchest supporters were the respected former Prime Minister Anand Panyarachun and two leading members of civil society, Thirayuth Boonmee (a leader of the 1973 uprising against a military government) and physician Dr Prawase Wasi. The Thailand Development Research Institute (TDRI), an influential, independent economic think-tank, was tasked by the government with developing the concept. Based on TDRI recommendations, the Cabinet adopted governance as a national agenda in May 1999, committing itself to the rule of law, transparency, participation, accountability, and cost-effectiveness. Regulations published in the Royal Gazette in July required all government agencies to establish a plan to improve their work according to the five principles, and file an annual report on this to the Cabinet for passing to Parliament.

There were, of course, plenty of cases where "traditional" practices — characterized by money politics, cronyism, and executive dominance — held sway. Cronyism and nepotism were evident in the July 1999 cabinet reshuffle, in so far as this involved non-Democrat parties. Vote-buying and electoral fraud remained prominent in local elections yet to come under more rigorous conditions that will govern future national elections. Self-interested ministers, parliamentarians, and officials delayed and sought to amend legislation in a variety of areas. Entrenched bureaucratic interests delayed the process of privatization, invoking fears of Thai interests being taken over by foreigners. Implementation of government policies was often inadequate.

Nonetheless, the forces of reaction have been more than matched by those of reform. Reviewing the process of contitutional reform, columnist "Chang Noi" concluded: "While the opposition mounted in the defence of established power and privilege has been truly impressive, so too have been the efforts of small groups of people working to keep the Constitution alive and kicking ... The Constitution is being kept alive in the face of some fierce reactionary sword play by a small number of people with a large store of commitment" (*Nation*, 12 October 1999). Indeed the scope of the changes has been so far-reaching that it may be time to reassess the general depiction of Thailand as a weak state.

The first year of the millenium will be a challenging one for Thailand, with many provisions in the new constitution coming into effect during and after parliamentary elections. Senate elections must be held in March 2000. These are not supposed to be contested on party lines, but are likely to be. Candidates are not even supposed to campaign — but there is ambiguity about whether they may before elections are formally announced. House elections are due by November 2000, and recent government statements have suggested a preferred timing of around mid-year. Elections will be held under new arrangements whereby 400 seats will be single-member constituencies, and 100 party list. No one is sure how this will unravel, but it will certainly favour strong parties. This, and an independent Election Commission with powers to limit corruption, should work very much in the Democrats' favour.

While it may be premature to speculate on the outcome, a strong showing by the Democrats looks probable, particularly if the economic recovery is sustained. That would represent an unprecedented vote for continuity. Any other result would raise fears about a return to traditional revolving-door governments. Still, while Thailand's reform process will experience further bumps along the way, the growing strength of civil society provides a strong guarantee that it will not be diverted completely off course. Dr Puey's legacy will not be lightly set aside.

INDOCHINA AND MYANMAR

Martin Stuart-Fox • Tin Maung Maung Than • Melina Nathan

Cambodia

The political impasse following the July 1998 elections was resolved in November when Cambodia's political élite reached a compromise to form a coalition government comprising the two rival parties: Cambodian People's Party (CPP) and the National United Front for an Independent, Neutral, Peaceful and Co-operative Cambodia (FUNCINPEC). The Senate (Upper House of Parliament) was instituted after a constitutional amendment to establish it was passed by the National Assembly (Lower House of Parliament) in March 1999. As such, all the accoutrements of parliamentary democracy were in place by mid-1999.

Meanwhile, Prime Minister Hun Sen managed to consolidate his grip of the government and the CPP's dominance of Cambodian politics. Hun Sen's former rival Prince Ranariddh, the leader of FUNCINPEC, seems contented in his supportive role of the regime as the Speaker of the National Assembly. On the other hand, King Sihanouk, troubled by health problems, no longer appears to play any substantive role in the country's political arena. In fact, there have been speculations that Prince Ranariddh is preparing himself for the eventual ascension to the throne. Only Sam Rainsy, leader of the opposition SRP (named after him), who was left out in the cold after the two major protagonists (Hun Sen and Prince Ranariddh) struck a deal, occasionally demonstrated dissent and dissatisfaction through protests and rallies, albeit with less support than he had managed to rally in the immediate post-election period. Overall, the citizens of Cambodia seem to have accepted the legitimacy of the present CPP-dominated regime and the relative overall stability brought about by the coalition government's rule.

On the external front, Cambodia regained, in December 1998, its seat at the United Nations that was suspended in the aftermath of the violent political crisis of July 1997. However, membership of the Association of Southeast Asian Nations (ASEAN) had to await the establishment of a relatively stable government with the required institutions. Hence, admission into ASEAN did not take place at the Sixth Summit at Hanoi in December 1998 despite the host country's support. This milestone in Cambodia's foreign relations was achieved only on 30 April 1999 at a special ceremony in Hanoi.

The apparent stability in Cambodian politics, where no serious challenges to Hun Sen and his CPP are discernible on the horizon, belies the fact that there are a number of unresolved issues and serious problems in governance and international relations that could lead to regime instability and widespread discontent amongst the polity.

Perhaps the most significant and divisive challenge to both the state and society of Cambodia is the controversial issue concerning the trial of former Khmer Rouge leaders, who were deemed responsible for the genocide committed at the height of revolutionary fervour some quarter of a century ago. Although "Brother Number One" Pol Pot died in the jungle in April 1998, other former leaders of the Khmer Rouge stand accused of crimes against humanity for their responsibility for the deaths of a large number of Cambodians during the reign of terror in the 1975–79 period. This issue became more pressing and controversial after the surrender in December 1998 of Pol Pot's deputy Nuon Chea (Brother Number Two) and former Prime Minister Khieu Samphan. They were welcomed and feted by Premier Hun Sen at the capital and were allowed to live freely together with former Foreign Minister Ieng Sary (who defected in 1996) in Pailin province, the stronghold of the Khmer Rouge defectors that had served under them. The capture of General Ta Mok, the former military chief of the Khmer Rouge in March 1999, followed by the surrender, in May, of former security chief Kang Kek Ieu (known as Duch), who had commanded the notorious Tuol Sleng detention centre in Phnom Penh, resulted in renewed calls for a genocide trial to prosecute the surviving Khmer Rouge leadership.

Cambodia

Land Area:	181,040 sq. km.
Population:	11.4 million (1999 estimate)
Capital:	Phnom Penh
Type of Government:	Parliamentary democracy with constitutional monarch
Head of State:	King Norodom Sihanouk
Prime Minister:	Hun Sen
Currency Used:	Riel
US$ Exchange Rate on 8 November 1999:	US$1 = 3,865 riel

However, there exist no appropriate laws in Cambodia for such a trial and most foreign observers and Western powers as well as detractors of the regime favour a U.N.-sponsored international tribunal (as recommended in February 1999 by a U.N. team of legal experts) on grounds that the judiciary in Cambodia lacks experience and resources and would not be independent enough to be impartial and fair. Despite the fact that Hun Sen and Prince Ranariddh (as co-prime ministers) had requested the United Nations in June 1997 to help bring the Khmer Rouge leaders to justice, the proposal for an international tribunal faced increasingly hostile reactions from the ruling political élite. In March 1999 the government made it known that Ta Mok would not be subjected to an international trial. Moreover, the very question of Ieng Sary, Nuon Chea, and Khieu Sampan as potential defendants in a genocide trial also became contentious as Hun Sen refuses to acknowledge their liability. His message seems to be that reconciliation for the sake of national unity and political stability is preferable to the division and dissent that would result from their trial and that it is an affront to Cambodia's dignity and sovereignty to allow foreign adjudication of a domestic issue. The moral authority of the United Nations and the Western powers who are now calling for justice is also being challenged by the CPP leaders, who have pointed out that the same powers had supported the CGDK (Coalition Government of Democratic Kampuchea) alliance that included the Khmer Rouge against the Vietnam-backed regime. There were also hints and indications from the Cambodian political leaders that an open trial of the Khmer Rouge top leaders would reveal embarrassing details of purported links between the Khmer Rouge and the People's Republic of China (PRC) as well as some Thai military and provincial officials.

After a protracted war of words with the U.N. team, Prime Minister Hun Sen gave the international body a Hobson's choice during his trip to New York in October 1999 to speak at the U.N. General Assembly. In a memorandum to U.N. Secretary-General Kofi Anan, Prime Minister Hun Sen reportedly tabled three choices for the international community: to provide legal advice and appoint a minority of judges and prosecutors; to provide only legal advice without active participation in the trial; or to terminate the U.N. involvement in the trial altogether. There were also reports that Cambodia was seeking legal advice from several countries, notably France. Given such developments, it is very likely that Cambodia will take the long road to an eventual domestic trial, while attempting to balance the international pressures for a speedy and impartial trial with the needs for reconciliation with the former Khmer Rouge and the domestic constituency's call for justice. It remains to be seen whether the trial will be confined to Ta Mok and Duch or will be extended to other former leaders. One possibility is that the former leaders will be brought to account for their wrongdoing and later pardoned. This issue may drag on for several years.

The prevalence of violence and the perceived lack of the rule of law when taken together with the continuing intimidation of opposition figures is a potentially destabilizing factor in Cambodian politics that is likely to remain well into the next decade.

There is also the issue of commune elections that have been postponed several times. Now they are scheduled to be held in the year 2000. There have been concerns from the rivals of the CPP that the elections to lead the over 1,600 communes might not be free and fair, given the CPP's dominance of the incumbent leadership of the communes. If this contest for local power sees the CPP engaging in a campaign of intimidation, the bitter struggle between it and its rivals may lead to violence.

Unresolved problems related to the demobilization of the Armed Forces that has had tens of thousands of "ghost" troops on the payroll and endemic corruption in the public sector are likely to persist and continue to erode the performance legitimacy of the ruling élite in the near future. Little progress can be expected in this direction during the 2000–2001 period.

The border disputes with Thailand and Vietnam, in the case of the latter further complicated by perceptions over the issue of alleged Vietnamese settlers in Cambodia, have taken a higher profile recently with demonstrations outside the embassies of the two countries. Activists and dissidents appeared to have taken up the cause, even against alleged Laotian encroachment on Cambodian territory, invoking nationalist sentiments, which, if allowed to get out of hand, do not auger well for Cambodia's relations with its ASEAN neighbours.

All in all, Cambodia in 1999 looked more stable than it has for many years. However, one cannot yet conclude that the apparent tranquility will remain unperturbed, given the unresolved domestic problems and issues mentioned above. Furthermore, they may be aggravated by external actors because Cambodia is much dependent upon Western donor countries and multilateral institutions dominated by the Western powers. Therefore, in the new decade, difficult times cannot be ruled out, especially if the Khmer Rouge trial issue leads to a process or an outcome that is at odds with the expectations of the different domestic constituencies or the Western donor states.

Laos

The greatest problems facing Laos as it looks towards the next millennium are undoubtedly economic. The economic crisis that has gripped Southeast Asia for the last two years looks set to take its greatest toll on the weakest country in the region. In the past year, inflation has more than doubled, reducing the value of the Lao kip to around 10,000 to the U.S. dollar (up from 1,000 in 1996). The value of Lao imports has increased while the value of exports has fallen, thus widening an already considerable trade deficit. Foreign investment is down and unlikely to pick up in the short term. And longer-term prospects, especially for the sale of hydro-power on which the Lao Government has been pinning many of its hopes, are gloomy to say the least. The prospects are therefore for continued dependency on foreign aid, even if this is alleviated by the likely cancellation of around half the country's external debt as a result of planned debt relief on the part of the G-7 nations.

Faced with these challenges, the government has dithered. Power now rests in the hands of a revolutionary gerontocracy whose understanding of global economics is strictly limited. Seven of the nine members of the Lao People's Revolutionary Party's Politburo have military backgrounds and little formal education. Their political priorities are to preserve both the political power monopoly of the party and the influence of the army. They feel more comfortable with their opposite numbers in Vietnam and China than they do with the representatives of global capital, and seem unable to cope with the forces impacting on their country.

Calls by Western governments and international lending agencies (the World Bank and the Asian Development Bank) to maintain the momentum of economic reform and improve macro-economic management have gone largely unheeded. Stopgap measures such as reducing working hours for civil servants so they can take on an extra job have been the preferred response to date. That the government is uncertain and divided was evident when in August one of the few reformers, Deputy Prime Minister and Minister of Finance, Khamphuy Keobualapha, was replaced, along with the governor of the central bank, Cheuang Sombunkha. Khamphuy had already been dropped from the Politburo and from the Central Committee at the Sixth Party Congress, and it was perhaps surprising that he hung on to his government post for as long as he did. But his going was a sign that the pace of reform was likely to slow, a conclusion reinforced by the naming of Bunnyang Vorachit, mayor of Vientiane and Politburo member, as Finance Minister. The new central bank governor is Sukhan Mahavat, former governor of northwestern Bokaeo province. Neither man has strong credentials in financial management and both are more likely to take advice from China and Vietnam than they are from the International Monetary Fund (IMF).

Relations with Vietnam seem to have strengthened as a result of the Asian economic crisis. The President of Vietnam, Tran Duc Luong, paid an official five-day visit to Laos in June where he met with senior Lao leaders, including President Khamtai Siphandon and Prime Minister Sisavat Keobunphan. The visit produced several agreements, on investment, economic co-operation, and the construction of an agricultural processing plant, though no details were given. Earlier, the Lao External Commercial Bank and Vietnam's Investment and Development Bank agreed to establish a new joint-venture public bank in Laos.

Close military ties were again in evidence during the six-day visit of Vietnam's Defence

Laos

Land Area:	236,800 sq. km.
Population:	5.2 million (1998 estimate)
Capital:	Vientiane
Type of Government:	Communist party-led people's republic
Head of State (President):	General Khamtai Siphandon
Party Secretary:	General Khamtai Siphandon
Prime Minister:	General Sisavat Keobunphan
Currency Used:	Kip
US$ Exchange Rate on 8 November 1999:	US$1 = 7,700 kip

Minister General Pham Van Tra to Laos earlier in the year. Co-operation between the Lao and Vietnamese defence ministries was said to have been strengthened, but again no details were given. Internal security co-operation was another area, rather ominously, where co-operation remained close.

Relations with Thailand by contrast have not been as friendly as with Vietnam, largely because a number of unresolved issues continue to dog relations between the two states. Particular strains have been placed on the relationship by the continuing economic crisis. On his official visit to Thailand in March, Lao Prime Minister Sisavat Keobunphan called for an end to Thai naval patrols on the Mekong (Lao patrols were terminated in 1990). The Thai demurred, citing smuggling and drug trafficking as persistent problems. Other outstanding irritants include the slow pace of border demarcation (just over half finished, but due for completion by the end of year 2000), the activities of Lao refugees and resistance groups in Thailand whom the Lao blame for promoting anti-government sentiment in Laos, and arbitrary controls on cross-border trade.

On the economic front, Lao dependency on Thailand was all too evident. The postponement or cancellation of Thai investment projects in Laos has deepened the impact of the economic crisis in Laos. This has been exacerbated by a sharp reduction in cross-border trade due largely to a loss in value of the kip. While Thai exports to Laos have appreciated in value, Lao exports to Thailand have declined, resulting in a serious trade imbalance in Thailand's favour.

The most serious long-term economic problem, however, concerned disagreement over prices and quantities of Lao electricity to be sold to Thailand. The Electricity-Generating

Authority of Thailand (EGAT) further reduced its offer for Lao electricity to the point where construction of the giant Nam Theun 2 hydro-power station must now be seriously in doubt. Even if Nam Theun 2 does go ahead, it is likely to be the last major hydro-power project in Laos for some time (now that the Theun Hinboun station has been completed). The Thais have re-calculated their requirements well into the next century, taking account of the availability of cheap natural gas from Myanmar, and Laos looks likely to suffer.

One area where the outlook is brighter is communications. A US$3 million contract has been awarded for the last stage of National 2A linking northern Laos with Thailand. This should open up new markets for Lao agricultural produce and expand cross-border trade. More significant in the longer term is the first stage of a major railway project. This will run from the Friendship Bridge at Nongkhai (which has provision for a rail link) fourteen kilometres to Vientiane. The builder, Lao Railway Transportation Company, jointly owned by the Lao Government and Thai interests, envisages a second stage to cover the 220 kilometres north to Luang Phrabang, with an eventual third stage as far as the Chinese border.

To the east, a new road connection has been completed, linking Salavan and Sekong provinces in Laos with the port of Giang in Quang Nam province in Vietnam. This is in addition to Routes 9 and 12 farther north, and will further facilitate Lao-Vietnamese trade. Together with roads north into China, and improved access to Cambodia once the Japanese-built bridge across the Mekong at Pakse is in use, these improved communications go a long way towards unlocking land-locked Laos, and reducing dependency on Thailand.

Laos continues to pursue its policy of developing good relations with all neighbouring and donor countries, in particular with China. Friendship delegations continue to be exchanged between the two countries; Defence Minister Choummali Sayason led a high-level Lao military delegation on a six-day official visit to China in June; and commerce is expanding across Laos' northern border with Yunnan. With Cambodia, by contrast, relations were somewhat strained, with Phnom Penh accusing Lao farmers of entering Cambodia illegally, clearing land, and planting crops. (There is already a substantial Lao presence in the northern Cambodian province of Stung Treng.) Cambodian Prime Minister Hun Sen was due to pay an official visit to Vientiane before the end of the year, however, when a number of agreements on trade and cross-border co-operation were due to be signed.

Relations between Laos and the United States continued in their low-key co-operative way. In exchange for continuing to search for and excavate Vietnam wartime crash sites for American airmen missing-in-action (MIA), the United States provided equipment, training, and financing for clearance of mines and other unexploded ordinance (UXO). The Japanese Government also agreed to fund a two-year UXO programme in central Laos. A conference on the MIA issue to include the United States, Cambodia, Laos, and Vietnam is planned.

Relations with Japan were strengthened by an official visit to Tokyo in October by Deputy Prime Minister and Minister of Foreign Affairs Somsavat Lengsavat. The Japanese endorsed the need for continuing macro-economic reform, and offered planning assistance "to boost government revenue and foreign reserves". For his part, Somsavat reiterated his government's commitment to continuing economic reform.

Prime Minister Sisavat sounded the same theme in his address to the National Assembly in October, but what remained to be seen was whether rhetoric would be matched by political will. Control of inflation is a priority, but can only be achieved by comprehensive macro-economic policies aimed at increasing government revenue and addressing the balance of payments deficit. The standard of living has been falling, and Lao foreign reserves are dangerously low.

So what are the prospects for the next two or three years? Politically, the party faces no foreseeable threat to its authority, but its arcane deliberations will continue to close off informed debate. Decisions will thus continue to be made by an ageing ill-informed élite, with no clear vision for their country. Even so, the economy is likely to pick up. Though timber, coffee, and electricity exports will grow only slowly, if at all, tourism is likely to increase, along with light manufacturing for export. So Laos seems to muddle along as it has always done, looking hopefully towards a rosier future, but continuing to lack its own means of achieving it.

Myanmar

The ruling State Peace and Development Council (SPDC) has set out its vision for Myanmar in the twenty-first century. The vision was reiterated by U Win Aung, Myanmar's Minister of Foreign Affairs, in his statement to the fifty-fourth United Nations General Assembly (UNGA) on 24 September 1999. The aim of the SPDC is to turn Myanmar into a "modern, peaceful, and developed democratic state" undergirded by unity amongst its indigenous national races. To this end, Myanmar's military rulers promise to establish a democracy that "will guarantee the protection and promotion of human rights, particularly the rights to basic human needs such as clothing, food, and shelter". Racial harmony, religious tolerance, and power-sharing amongst the indigenous national races will ensure peace and stability. The ruling military junta was described as a "transitional government" by U Win Aung in another speech of a similar thrust and on the same day at the Asia Society Forum.

The government has indeed all along been claiming that it is acting to the best of its ability to improve economic and social conditions in the country and laying the foundations for a stable multi-party political system through the National Convention (for drafting the principles of the new constitution), while at the same time actively responding to the concerns of the international community on the issues of human rights and democracy in Myanmar. The examples that the junta frequently cites as its attempts to accommodate domestic and international concerns over democracy and human rights in Myanmar include the government's concession to armed ethnic groups, which have made peace with it, on the issue of retaining their arms; the measures taken to eradicate the drug menace; the co-operation with the International Committee of the Red Cross (ICRC) on prison visits by the latter's representatives; the acceptance of the European Union (EU) Troika fact-finding mission in July; the hosting of the visit by the Australian Human Rights Commissioner in August; and the consent given to the Assistant Secretary-General for Political Affairs of Special Representative of the United Nations to visit Yangon for talks with both government and the opposition leaders.

The vision statement portrays contemporary Myanmar as a society with a unity of

Myanmar

Land Area:	678,675 sq. km.
Population:	48.1 million (September 1999 estimate)
Capital:	Yangon
Type of Government:	Military
Head of State:	Chairman of State Peace and Development Council (SPDC), Senior General Than Shwe
Next Election:	Not known
Currency Used:	Kyat
US$ Exchange Rate	
on 8 November 1999:	US$1 = 341 kyat (parallel market rate)
average for June 1999:	US$1 = 6.31 kyat (official rate)

purpose and a consensus on the means to realizing that vision, with little indication of conflict, dissent, and disagreement. The unstated exception, from the regime's point of view, would be the opposition group, which is seen as comprising unpatriotic obstructionists and as the only obstacle to realizing the junta's vision. The military rulers appear to be rather dismissive of the opposition, depicting it as devoid of either legitimacy or effectiveness. However, Daw Aung San Suu Kyi, leader of the National League for Democracy (NLD), has persistently claimed that the NLD had been intimidated and punished for opposing the government's political agenda. In fact, in an interview transcript released in early October 1999, she asserted that the government had been implementing "salami tactics" to do away with the results of the May 1990 elections in which her party claimed victory by winning over 80 per cent of the seats.

Myanmar appears to be comfortably settled in as it entered its third year in ASEAN, hosting ministerial-level functional meetings and other high-level regional and international conferences in which ASEAN states were also represented. However, the impasse caused by the EU's exclusion of Myanmar in ASEAN-EU interactions remains unresolved. Recently, the 25-hour occupation of the Myanmar Embassy in Bangkok by an armed group called Vigorous Burmese Student Warriors on 1-2 October was an unprecedented event that threatened to sour Myanmar's relations with neighbouring Thailand and changed the security calculus of the regime by raising the possibility of other similar acts of violence.

In view of these developments, one may ponder what is in store for Myanmar's politics and foreign relations in the near future, particularly in the light of the aforementioned vision of its current military rulers. There are several critical issues related to the realization of that vision. One is achievement of national unity. The fact that the National Convention has been in recess since the end of March 1996 at the crucial stage of thrashing out details for power-sharing amongst regions within a unitary state system seems to indicate that there may be a challenge to the vision from some quarters. The "painful and arduous process of building a consensus on power-sharing" described as "an extremely sensitive issue for all parties concerned" must be completed harmoniously before the constitution-making process that will lead to the realization of the vision can proceed.

On the global front there are still problems posed by the West's ostracism of Myanmar through sanctions, boycotts, and withdrawal of privileges. The unabated assertive stance of the United States, the remaining superpower, and its allies on issues of human rights and democracy viewed from their own perspective will still be at odds with Myanmar's interpretations of priorities and substance. Events in Kosovo and East Timor are not encouraging for most developing countries whose unitary state paradigm of nation-building is being increasingly challenged by centrifugal forces of ethnic and religious divisions. In his speech, U Win Aung referred to the need to take into account "universally recognized principles governing international relations and the principle of respect for state sovereignty", presumably by Western powers, "before resorting to measures of extreme nature ... in a particular situation". This reflects the anxiety of Myanmar with regard to unilateral or group actions by Western powers in the latter's national interest under the rubric of "humanitarian intervention". It must be quite alarming for Myanmar and other developing countries when the United Nations Secretary-General himself started to espouse views sympathetic to a conditional interpretation of sovereignty on such issues.

At the regional level, the EU Foreign Affairs Commissioner designate Chris Patten's pledge to turn the EU into a "force for democracy and human rights the world over" does not bode well for improvement in bloc-to-bloc relations between ASEAN and the EU, which has been marred by the latter's prejudice against Myanmar's participation. Closer to home, the fall-out from the embassy siege in Bangkok has soured bilateral relations between the two countries. Myanmar is apparently displeased with the Thai Government's approach that allowed the gunmen involved in the embassy siege to take a helicopter ride out to the safety of the jungle in the Thai-Myanmar border. Yangon seems to have taken umbrage to the remarks made by the Thai Interior Minister and other high-level officials to the effect that the perpetrators were not deemed to be "terrorists". The apparent sympathy exhibited by the Thai media and even some of the Western hostages to the "terrorists" also aggravated the situation and heightened Myanmar's outrage. Myanmar probably regards this event as an affront to its sovereignty and breach of national security of the gravest nature. The subsequent closure of the border with Thailand and the revoking of fishing rights of Thai trawlers illustrates Myanmar's determination to put national security ahead of trade and commerce. On the other hand, this episode reflects the differing views and values of Yangon and Bangkok regarding the relationship between Myanmar's "internal affair" of ensuring human rights and accomplishing a democratic transition, on the one hand, and the problem of Myanmar expatriates and "refugees" in Thailand, on the other.

All these domestic and external obstacles to Myanmar's attempt to realize its vision by members, and the party has issued a lengthy code of conduct for members covering declaration of private assets and injunctions against abuse of their positions for personal gain, deviation from the party line, and, in some areas, participation in private business. A cleansing of the stables would seem to be required in the wake of the 1997 rural unrest in northern Thai Binh province caused by abuse of power by local party cadres; the numerous banking and smuggling scandals involving state and party officials; and even a front-page letter by former Prime Minister Pham Van Dong, stating that the party had lost the faith of the people.

Another important purpose of the campaign is to enforce discipline and unity within a party wrecked by internecine struggles and slur campaigns. It is believed that the campaign will be used by Le Kha Phieu to consolidate his own position. In this context of bureaucratic politics, a warning from senior ideologue Dao Duy Quat that "external hostile forces" are exploiting Vietnam's weaknesses to sabotage it politically and ideologically indicates that the technocrats can only push so far with reforms.

The Seventh Plenum held in August 1999 focused on administrative reform and slashing Vietnam's inefficient bureaucracy in the next two years. In a press interview, Le Kha Phieu stated that 15 per cent of the administrative personnel in party and state bodies would be laid off and the rest would receive wage increases in line with the cost of living. Whilst administrative reform is key to improving Vietnam's flagging investment climate, the emphasis on overhauling the National Assembly (and related organizations) may curb some of the independence that it has shown of late in refusing to pass legislation and criticizing government corruption and economic management. More centralization of power can also be expected with the review of the role of provincial departments. Le Kha Phieu's announcement of a new party advisory body that would include representatives of party organizations, state agencies, and mass organizations also suggests the formation of a new power base.

The party's concern with regime security has also affected its foreign policy. Sino-Vietnamese relations outstrip all others in terms of the number of bilateral, high-level exchanges between party, state, and military organizations. Le Kha Phieu described his first visit to China in March as "a complete success" and made explicit Vietnam's desire to learn from the Chinese experience of combining economic reform with a socialist orientation. The focus of their joint statement was the speedy resolution of border disputes (the land border treaty will be signed by the end of year 1999 and the demarcation of the Tonkin Gulf by 2000) as well as boosting trade and investment. Vietnam has also echoed China in the international arena: multipolarity rather than unipolar hegemony (read "U.S. dominance") is conducive to world peace; the military intervention in Kosovo is a violation of national sovereignty.

Most tellingly, U.S.-Vietnam relations have suffered two major set-backs. Fledgeling military-to-military ties were dampened when Vietnam twice called off a planned visit by U.S. Secretary of Defence William Cohen. The landmark bilateral trade deal that was agreed to in principle in July and would have given Vietnam access to the massive U.S. market, boosted foreign investment, and eased its bid to enter the World Trade Organization (WTO), was not signed as had been expected on the occasion of the APEC summit in September. Displeasing China has been seen as one factor. Vietnam's signing of the trade agreement, the most detailed to be drafted by the United States, would have meant tougher requirements of the Chinese in their own WTO negotiations with the United States.

It is also clear that those with vested interests in Vietnam's protected SOEs balked at the detailed agreement that would commit Vietnam to radical economic reform. For party ideologues and those in the military and security branches, this evokes the spectre of "peaceful evolution" or subversion of the socialist system through economic and non-military means. Finally, to move too close, too quickly in relations with the United States might displease China — the cost of offending a socialist neighbour to advance relations with a geographically distant, former capitalist foe is too high for the Communist Party of Vietnam at present.

In spite of prioritizing China ties, Vietnam still looks to Russia as its main source of military hardware and training. In July, both countries signed a military accord emphasizing comprehensive military-technical co-operation, the training of Vietnamese personnel in Russian military schools, arms supplies from Russia, and a repair and servicing base in Vietnam for previously and newly supplied equipment.

Signs of Vietnam's deepening regional integration are encouraging. Its police force has participated in regional efforts to combat drug trafficking, which is fast becoming Vietnam's main social and criminal problem. Relations with Thailand in particular have improved with co-operation in issues pertaining to trade, the border, and crime. Whilst Vietnam and Cambodia have indicated that they will resolve their border disputes by the end of the year, this is unlikely given the volatile nature of the issue in Cambodia as well as Cambodia's unhappiness with Vietnam's prior agreement with Thailand in 1997 over disputed territorial waters in the Gulf of Thailand where Cambodia has its own claims.

Developments in 1999 point to the following trends in 2000–2001:

- Le Kha Phieu has yet to consolidate his position and the lack of a unified leadership will slow down the economic reform process, though not reverse it.
- The corruption and self-criticism campaigns will be used to effect personnel change and rejuvenation at the Politburo and ministerial levels which is long overdue.
- These campaigns will intensify party in-fighting before discipline and unity can be enforced.

These factors will converge to create uncertainty that can only delay the implementation of reform policy initiatives in the run-up to the Ninth Party Congress.

THE ASEAN-6

Nick J. Freeman

- Notwithstanding a marked improvement in Southeast Asia's economic fundamentals, the post-crisis recovery process has only just begun for most countries in the region. Expectations of future growth should be contained within the reality that a substantial private sector debt overhang and a weak banking sector are hurdles that several countries have yet to overcome.
- Most of the ASEAN-6 economies appear to have commenced a cyclical upswing. However, the danger of some form of regional economic relapse should not be wholly discounted, as a result of unexpected events — either political or economic — occurring either within the Southeast Asia region or beyond.
- Singapore is likely to set the pace in terms of post-crisis economic recovery trajectories, with Indonesia bringing up the rear. Barring any hiatus in the economic recovery trajectory, the ASEAN-6 should see 3–5 per cent growth in the year 2000.

One factor that should stand Southeast Asia in good stead during the period 2000–2001 is a broadly conducive external environment of around 3.5 per cent global economic growth. This will provide a platform of support for the region's own gross domestic product (GDP) growth rates in the two years ahead. Consensus estimates suggest that within the ASEAN-6, only Indonesia will record a negative GDP growth rate for 1999, and that the rest of the region could be back into positive economic growth territory during the year 2000. If so, Singapore is likely to be the leader of the pack, with Indonesia almost certainly bringing up the rear. Thailand and the Philippines are expected to hold their own, although the latter could surprise on the up-side, partly as a result of new-found interest by foreign investors in some of the Philippines' innate competitive strengths. Thailand's full recovery potential, however, will be hobbled as long as concerted efforts to work out the sizeable private sector debt overhang are thwarted by powerful interest groups. Economic recovery prospects in both Indonesia and Malaysia are closely tied to developments in the political sphere, although the challenges faced by the former are clearly far greater in scale. Malaysia's rather unique methods of corporate restructuring have raised some eyebrows, but it will take time to judge how successful they have been. Key factors in the recovery path for all Southeast Asian countries will be: a resumption of domestic demand and consumption, a rebuilding of the banking sectors to levels where financial intermediation (including credit provision) can recommence, and the restructuring of private sector debt. As a consequence, the post-crisis recovery issue will almost certainly remain the dominant economic theme for Southeast Asia in the two years ahead.

It should be kept in mind that any economic recovery in Southeast Asia comes after two years of contraction, and that for most countries the primary aim is to regain lost momentum rather than attempt to scale new heights. Indeed, with a need to restructure their corporate sectors, expunge bad debt, liberalize business regimes, strengthen institutions, and put in place better regulatory bodies, any dash for rapid growth would probably not be wise at this time. With that in mind, there is a danger that popular sentiment, as often reflected in the region's stock market indices, may get ahead of itself from time to time, as the sheer scale of the private sector debt overhang — and various other problems — in some countries becomes overly discounted. For some countries in the region, particularly those confronting a substantial bad debt problem in the private sector, the recovery process is quite clearly going to be a fairly long and arduous slog.

Although the economic problems faced by each of the ASEAN-6 countries tend to be different in each case, a number of common themes are apparent in most of them, including weak domestic demand, stubbornly high debt levels in the corporate sector, and a paucity of bank lending. Each will need addressing if a sustained economic recovery is to be achieved, and the business confidence that comes with it, in tandem with a comprehensive restructuring of the domestic banking sectors. In the mean time, a surprisingly robust increase in regional trade is feeding into the manufacturing sectors of some Southeast Asian countries, permitting an export-led recovery process, as evidenced by healthier figures for current account balances and foreign exchange reserves. Healthy import demand from the United States has assisted this export growth phenomenon in Southeast Asia, buoyed by the relative

TABLE 1
ASEAN-5 Trade Performance, 1997–2Q99
(% change year-on-year, in US$ terms)

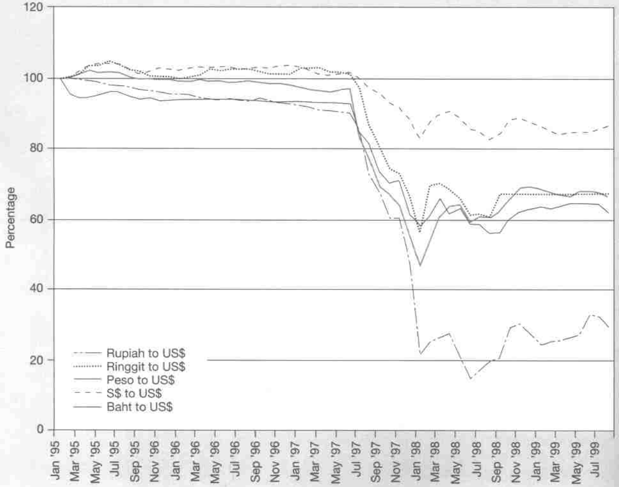
	1997	1998	1Q99	2Q99
Exports				
Indonesia	7.3	−8.6	−18.8	−4.6
Malaysia	0.7	−6.7	4.6	15.8
Philippines	22.8	16.9	15.2	12.2
Singapore	0.0	−12.1	−10.8	1.1
Domestic exports	−1.4	−12.6	−5.7	5.5
Re-exports	2.0	−11.4	−17.5	−4.9
Thailand	6.0	−6.8	−4.0	5.7
Imports				
Indonesia	−2.9	−34.4	−22.8	−1.8
Malaysia	0.8	−26.0	−6.8	10.1
Philippines	10.8	−17.5	−9.1	6.3
Singapore	0.0	−29.5	−8.4	13.7
Thailand	−12.2	−33.1	5.8	11.3

1Q99 = First quarter of 1999.
2Q99 = Second quarter of 1999.
SOURCE: Morgan Stanley Dean Witter.

depreciation in the value of the regional currencies against the U.S. dollar. Recent strength in the value of the yen may also act as a fillip for Southeast Asian exports destined for Japan, and if sustained, may also prompt a resumption of some Japanese investment into the region. In terms of potential domestic investment, local firms in Southeast Asia have been aided by the recent easing of interest rates in most countries across the region.

Nonetheless, the need to restructure the considerable private sector debt overhang is a prerequisite of meaningful recovery in Southeast Asia, which the region has yet to convincingly tackle. This is true for both domestic and foreign banks exposed to the worst-affected Southeast Asian countries, in order that lending activity — and other forms of essential financial intermediation (from syndicated lending to elementary trade financing) — can fully resume. But this is likely to be a lengthy and convoluted process, due to the scale and

FIGURE 1
Relative Performance of Regional Currencies (against the U.S. Dollar), 1995–99

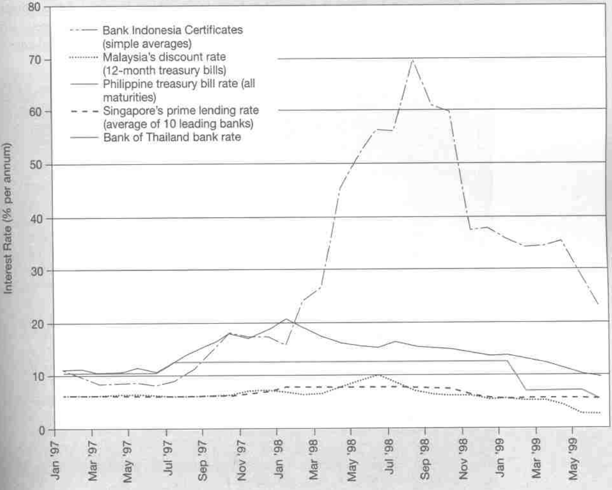


SOURCE: CEIC Data, *DRI Asia Database*.

complexity of the private sector debt problem that confronts some countries. Tables 2 and 3 give some indicative data on this issue, albeit solely with regard to foreign bank lending (by banks that report to the Bank for International Settlements), and of which only a proportion will be non-performing. Even though Indonesia has been able to reduce its total foreign bank claims by 20 per cent, Malaysia by 5 per cent, and Thailand by 40 per cent between end 1996 and end 1998, these three countries still cumulatively face foreign bank claims in excess of US$100 billion.

Indeed, this broad trend is apparent across Southeast Asia. Where loan restructuring becomes necessary, it can be a difficult exercise in cases where private sector creditors have multiple loans, or where loans have been syndicated across multiple lenders, and so on.

FIGURE 2
Interest Rates in Southeast Asia, 1997–99
(percentage per annum)



SOURCE: CEIC Data, *DRI Asia Database*.

Japan's banks are the largest single foreign lender in Indonesia, Malaysia, and Thailand (over US$45 billion in claims across the three countries), France is the top lender across the three Indochina countries (US$550 million), and German lending dominates in Myanmar. Other foreign banks well exposed to the region include those from the United Kingdom (over US$10 billion) and the Netherlands (over US$8.4 billion). Albeit with a few notable exceptions, the anticipated wave of regional asset acquisitions by Western investors seeking to buy cheap, distressed business assets has not been very evident. While substantial chunks of business assets across much of Southeast Asia are indeed in distress, this does not seem to be reflected in the prices, nor in the volition of owners to make divestments. Where such volition is lacking, one might typically expect to see bankruptcy laws forcing the hand of those owning insolvent firms, but this sort of legislation is still a movable feast in some Southeast Asian countries, and particularly those hit hardest by the Asian crisis. (Such a correlation is telling in itself.)

Over and above the post-crisis recovery process is another — wider and more long-term — issue that confronts the Southeast Asian economies and numerous other emerging markets. While Southeast Asia has been distracted by the regional economic downturn, a radical change in business dynamics has been taking shape in parts of the industrialized world, the knock-on effects of which are beginning to reach emerging markets. Driven in part by new efficiencies being derived from recent technological advances, and excess global

TABLE 2
Consolidated Foreign Bank Claims in Indonesia, Malaysia, and Thailand, by Sector, 1996–98
(percentages)

	End 1996	End 1997	End 1998
Indonesia			
Banks	21.2	19.8	11.5
Public sector	12.5	11.8	14.9
Private sector	66.2	68.4	73.6
Malaysia			
Banks	29.3	35.3	27.6
Public sector	9.0	6.4	8.7
Private sector	61.8	58.2	63.6
Thailand			
Banks	36.9	29.9	21.7
Public sector	3.2	3.1	4.7
Private sector	59.6	66.9	73.6

Note: The bank claims also include local bank claims in foreign currencies.
SOURCE: Bank for International Settlements.

capacity across a spectrum of commodities and products, the cumulative result has been a general decline in prices and a squeeze on profit margins. Consequently, the industrialized countries have seen a veritable frenzy of mergers and acquisition activity in the private sector, along with a relative decline in "green field" investment (that is, investing in new production capacity), as firms seek to remain competitive and profitable. In addition, the productivity gains stemming from new innovations in manufacturing and communications technology, most notably in the broad field of information technology (IT), are also having an adverse impact on the demand for low-skilled labour, and other areas where emerging markets have tended to be well endowed.

Although the full implications of this change in business dynamics remain unclear, it does seem apparent that they will pose new challenges for developing countries, and the relative value of their comparative advantages. In particular, those countries unable to provide an adequate host country platform of skilled human capital, physical infrastructure, legal protection (for example, intellectual property rights), and financial market instruments may encounter greater difficulties in developing their business sectors and attracting new foreign investors in the future. Such a trend also requires developing countries to embrace new thinking on foreign investment policies, as the more established concepts of industrial zones and export-processing zones, and various other conventional foreign direct investment

TABLE 3
Consolidated Bank Claims on BIS Reporting Banks on Southeast Asian Countries, by Sector, as at End 1998

	US$ Millions	% Banks	% Public Sector	% Private Sector
Brunei	335	0.6	86.3	13.1
Cambodia	33	15.2	—	84.8
Indonesia	44,827	11.5	14.9	73.6
Laos	10	40.0	—	60.0
Malaysia	20,826	27.6	8.7	63.6
Myanmar	222	85.6	4.0	10.4
Philippines	16,160	37.1	12.8	50.1
Thailand	40,749	21.7	4.7	73.6
Vietnam	1,670	21.7	5.9	71.8

SOURCE: Bank for International Settlements.

(FDI) strategies become an endangered species. (Vietnam alone has a staggering sixty such industrial and export-processing zones, almost all of which have been a disappointment.) Indeed, if one regards these sorts of changes as a contributory factor in the recent regional economic downturn, then the Asian Crisis could be perceived as a loud "wake up call" for the region's policy-makers and major corporates. Tellingly, the World Economic Forum's Global Competitiveness Report 1999 covered six of the Southeast Asian economies, of which four have slipped down the global rankings since 1996, with only Singapore maintaining its (pole) position. In terms of financial market sophistication and e-mail usage by companies, within Southeast Asia only Singapore is ranked in the top half of the fifty-nine countries surveyed globally. Such survey results might be cited as anecdotal evidence that the region's platform of financial and IT services is not as convincing as some might have been led to believe.

But the recent changes in business dynamics are not just about hi-tech "gizmos", they are also about human capital, the importance of which is increasing relative to conventional business assets. Emerging economies will need to provide investors with improved levels of human capital if they are not to find themselves out of the running for global capital flows. As an intelligence report by the Political & Economic Risk Consultancy Ltd. (PERC) recently noted, "the defining feature of a country's competitive advantage in the future will be the quality of its skilled workers". It is therefore not surprising that business advisers to the Asia-

TABLE 4
Global Competitiveness Report Rankings

Competitiveness rankings for Southeast Asia, 1996–99

	1999	*1998*	*1997*	*1996*
Singapore	1	1	1	1
Malaysia	16	17	9	10
Thailand	30	21	18	14
Philippines	33	33	34	31
Indonesia	37	31	15	30
Vietnam	48	39	49	n.a.

Financial market and e-mail rankings for Southeast Asia, 1999

	Financial market sophistication	*E-mail use by corporates*
Singapore	9	7
Philippines	29	39
Malaysia	33	40
Thailand	42	49
Indonesia	46	52
Vietnam	55	59

Note: The survey covers fifty-nine countries.
SOURCE: World Economic Forum.

Pacific Economic Co-operation (APEC) recently highlighted the need to upgrade educational levels as this was one of the major impediments to trade and investment in the region. When business people call for improvements in something as wide-ranging as general educational levels — ahead of specific tax breaks, incentives, and other more conventional and immediate ways of making business regimes more attractive — policy-makers should start paying close attention. While there will undoubtedly remain a demand for low-skill manufacturing and commodity production from developing countries, increasingly, heavy competition is going to make this a cut-throat business, offering only wafer-thin margins. Such a grim prospect is not good news for Indonesia, Thailand, and the transitional countries of Southeast Asia.

The Asian Crisis has highlighted the need for most Southeast Asian policy-makers not to neglect their agricultural sectors, even when making concerted bids to develop their industrial and service sectors. Previously regarded as a sunset industry at best, the agricultural sector held up well during the regional economic downturn, and did much to cushion the social and economic impact of the financial crisis in some countries. (Within the ASEAN-6 countries, the agricultural sector accounts for roughly 45 per cent of total employment in Indonesia, the Philippines, and Thailand, and just under 20 per cent in Malaysia. The figure is even higher for the transitional countries of Southeast Asia.) With so many people still deriving their income from the agricultural sector in most Southeast Asian countries, policy-makers now appear more cognisant of the need to support the development of this sector. On the road to modernity, allocating finite resources to IT clusters or rural areas should not become a zero-sum game.

Finally, the impact of Y2K on Southeast Asia — both positive and negative — is also worthy of note. On the positive side, global Y2K jitters helped buoy exports of electronic and computer-related products by ASEAN-6 countries in 1999. And across a much more diverse range of products, output was assisted by both consumers and companies alike enacting stockpiling measures in the latter part of 1999 as a precautionary measure in case of supply dislocations at the beginning of 2000. On the negative side, this stockpiling may well result in a general drop in demand for products during the first part of 2000, as companies seek to reduce excess inventory levels. Also, institutional investor concern as to Y2K's adverse impact on corporate earnings in 2000 — as well as the general perils of having asset portfolios exposed to the financial markets across the millennium — did cast a distinct shadow on the region's stock markets during the latter part of 1999, resulting in poor liquidity. (At times like this, most major investors tend to make a "flight to quality", with capital flows discriminating against more risky asset classes.) However, as Y2K anxiety becomes a memory, we might well expect to see substantial foreign funds flowing into the region's equity markets, particularly during the first few months of 2000, as institutional investors seek to adjust their global asset allocations to give them greater exposure to Asian emerging markets. Any sustained volume of foreign capital inflow alone could cause Southeast Asia's stock markets to rise, as they often do in the first quarter of the calendar year. Evidence of a general improvement in corporate performance (for example, a return to positive earnings and returns on assets) in the region should further support this trend, as will any solid improvement in Southeast Asia's macro-economic figures.

(continued on page 50)

TABLE 5
Macro-Economic Forecasts for the ASEAN-5

GDP growth

	1997	1998	1999E	2000F	2001F
Indonesia	4.7	−13.2	−0.2	2.5	6.0
Malaysia	7.5	−7.5	4.0	4.5	5.0
Philippines	5.2	−0.5	3.0	4.5	4.8
Singapore	7.8	0.7	6.5	6.0	6.0
Thailand	−1.3	−9.4	4.5	5.0	6.0

Current account (as % of GDP)

	1997	1998	1999E	2000F	2001F
Indonesia	−1.4	4.2	6.9	5.7	5.2
Malaysia	−5.3	12.9	13.6	6.2	3.5
Philippines	−5.3	2.0	2.5	1.3	0.3
Singapore	15.4	18.2	14.5	13.6	14.9
Thailand	−2.1	12.7	8.3	5.0	3.3

CPI (% change year-on-year)

	1997	1998	1999E	2000F	2001F
Indonesia	6.1	58.5	24.5	10.0	8.5
Malaysia	2.7	3.2	2.9	3.7	4.5
Philippines	6.0	9.7	7.3	7.0	5.6
Singapore	2.0	−0.3	0.5	1.0	2.5
Thailand	5.6	8.1	0.4	2.2	4.0

Three-month interest rate (%)

	1998	1999E	2000F	2001F
Indonesia	45.3	19.3	15.0	12.0
Malaysia	6.5	3.3	3.8	4.5
Philippines	15.0	10.2	10.5	10.3
Singapore	2.0	2.0	2.5	3.3
Thailand	12.8	3.8	4.3	6.5

Gross external debt (as % of GDP)

	1998	1999E	2000F	2001F
Indonesia	150.9	81.9	54.2	44.3
Malaysia	59.2	72.0	58.0	50.4
Philippines	74.3	70.3	73.5	75.5
Thailand	76.8	58.3	51.9	46.9

E = Estimated; F = Forecast.
SOURCES: World Bank; Asian Development Bank; ING Barings; author.

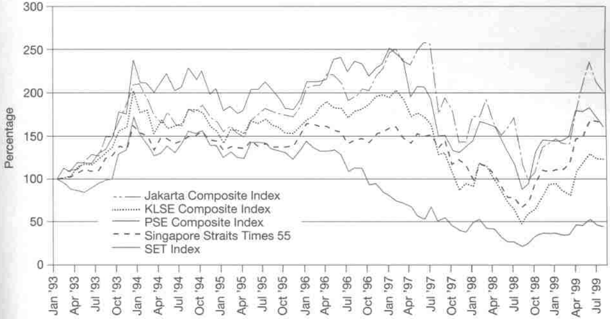
POST-CRISIS RECOVERY TRAJECTORIES

By Nick J. Freeman

The recovery process in Southeast Asia is primarily a process of private sector recovery, and the rebuilding of much-weakened domestic banking sectors. And the main issue that links the two is domestic debt levels. While it remains too early to judge whether a thorough and sustained post-crisis recovery process is now in train within the Southeast Asia region, it does appear as if the worst of the financial haemorrhaging and macro-economic deterioration is now behind us. Overall economic growth in the region during 1999 surprised many observers, as did the rebound in stock market indices and the trend of lowering interest rates across the region. Much of the economic recovery in 1999 can be attributed to an export-led phenomenon, as some of the ASEAN-6 countries were able to substantially increase foreign exchange earnings. But could all this be a "dead cat bounce", a technical correction that fails to be sustained in the longer term? The answer is still not yet wholly clear. For example, those countries where electronic products are a substantial proportion of total exports (that is, Malaysia, the Philippines, and Singapore) will be watching closely to see if computer-related export demand holds up in 2000, conscious of the fact that demand was buoyed substantially in 1999 by Y2K concerns. Other issues worthy of close monitoring in 2000 include the political arenas — particularly in Indonesia, Malaysia, and Thailand — and the success rates of the various corporate debt restructuring and bank recapitalizing agencies in the same three countries. Major problems encountered in any of these could be expected to impact adversely on the macro-economic outlook.

Although the dramatic impact of the regional economic downturn caused most of the region's economies

Relative Performance of Southeast Asia's Stock Market Indices, 1993 to August 1999



SOURCE: CEIC Data, *DRI Asia Database*.

POST-CRISIS RECOVERY TRAJECTORIES (continued)

Country Ceilings by Moody's: Long-Term Foreign Currency Bank Deposits

	Dec '96	Jun '97	Dec '97	Jun '98	Dec '98	Sep '99
Indonesia	Ba1	Ba1	Ba1	Ca	Ca	Ca
Malaysia	A1	A1	A1	Baa1	Ba1	Ba1
Philippines	Ba3	Ba2	Ba2	Ba2	Ba2	Ba2
Singapore	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1
Thailand	A2	A3	B1	B1	B1	B1
Vietnam	n.a.	B1	B1	B1	B3	B3

n.a. = Not available.
Investment grade (highest to lowest): Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3.
Speculative grade (highest to lowest): Ba1, Ba2, Ba3, B1, B2, B3, Caa1, Caa2, Caa3, Ca, C.
SOURCE: Moody's, *Global Ratings Guide* (various issues).

For those banks able and willing — or simply instructed — to lend, their credit officers will also face challenges identifying sound corporates with adequate collateral to receive loans.

Which leads us to a major potential constraint on the economic recovery process in Southeast Asia — a paucity of financing. If credit is going to be generally unavailable, then greater emphasis may have to be placed on equity financing, but this method also entails some difficulties. Family-owned firms in particular are reluctant to sell equity stakes in their businesses at current prices, where "the market" values such stock at levels commensurate with their distressed condition. One alternative might have been to enact new rights issues, but the relatively lacklustre state (and thin volumes) of the region's stock markets do not make this an easy option, and institutional investor sentiment towards this calibre of paper remains somewhere between ambivalent and erratic. Beyond the direct owners of local companies, there is also a wider sensitivity in some countries about the full or partial acquisition of local companies by foreign investors, which some regard to be taking unfair advantage of the region's current weakness. At times like this, the failure to establish a more substantial bond market in Southeast Asia, and Asia in general, appears unfortunate.

The recovery process in Southeast Asia should also be about confronting some fairly basic business issues, which certain regional economies had tended to overlook in the heady, pre-crisis days of double-digit growth. One such issue is that of bad debt — what is bad debt, how is it identified, and how should bad debt be recycled back into the economy. For example, it is estimated that in Thailand, up to a third of all NPLs are "strategic", denoting that debtors are able to service their loans, but are simply choosing not to do so. Another issue is basic corporate governance in its widest sense, including improved levels of transparency, respecting the rights of minority shareholders, and limiting the potential for moral hazard. The capacities and authority of some state institutions and regulatory bodies also need rebuilding in certain countries, having seemingly stood still or even deteriorated during the 1990s. (The regulatory bodies pertaining to some of the region's stock markets are a good example.) A large proportion of these issues require the introduction of new legislation, and more importantly, adherence to — and comprehensive enactment of — new legislation. That is not as easy as it sounds, and will require a paradigm shift for those countries where strict adherence to business law might not dovetail easily with ingrained habits. Matters have not been

Net Flows of Private Financing into the Asia-Pacific Region, 1996–2000F (US$ billions)

	1996	1997	1998	1999F	2000F
Equity investment	64.6	57.1	58.4	64.9	55.0
FDI	45.4	51.1	53.4	49.6	45.9
Portfolio	19.1	6.0	5.0	15.2	9.1
Creditors	109.7	13.9	–49.8	–25.6	–28.3
Commercial banks	75.6	–8.3	–52.2	–21.9	–24.5
Non-banks	34.2	22.2	2.4	–3.7	–3.8

F = Forecast.
SOURCE: Institute of International Finance Inc.

ASEAN-5 Stock Market Returns, 1995–99

	1995	1996	1997	1998	3Q99
Indonesia					
Local currency	7.9	16.6	–38.3	6.9	–15.5
U.S. dollars	3.7	12.8	–73.5	–26.1	–30.3
Malaysia					
Local currency	7.2	22.7	–51.3	–3.5	–13.2
U.S. dollars	7.8	23.3	–68.4	–1.2	–13.2
Philippines					
Local currency	–1.3	21.4	–43.8	8.8	–19.9
U.S. dollars	–8.1	21.1	–62.9	11.5	–25.5
Singapore					
Local currency	5.9	2	–35.4	–6.0	–9.2
U.S. dollars	9.2	3.1	–46.4	–4.0	–9.1
Thailand					
Local currency	0.4	–37.3	–60.3	–0.6	–25.4
U.S. dollars	0.1	–38.4	–78.9	31.2	–32.8

3Q99 = Third quarter of 1999.
SOURCE: ING Barings.

helped by the body of antiquated commercial laws in some countries, with Indonesia and Thailand having to revise bankruptcy laws that date from 1905 and 1945, respectively. Passing of laws must also be followed up with actions to equip prosecutors and courts to meaningfully enact such legislation, which in turn demands commitment and resources. However, failure to tackle such issues may prolong the recovery process and increase the threat of a subsequent relapse.

Brunei

Despite its heavy reliance on domestic oil and gas production, Brunei Darussalam's economy has not been wholly immune from the impact of the Asian Crisis. The sharp regional economic downturn led to a decline in East Asian oil demand, thereby exacerbating an existing global oil glut, and further contributing to a substantial weakening in global oil prices. This helped cause Brunei's GDP growth to register just 1 per cent in 1998, according to recent International Monetary Fund (IMF) estimates, which compares unfavourably with the 3.5 per cent and 4 per cent GDP growth rates recorded for 1996 and 1997 respectively, and an annual population growth rate of roughly 3 per cent. However, global oil prices doubled during the first half of 1999, which comes as good news to a country where oil and gas earnings account for over 85 per cent of total exports, 80 per cent of government tax revenues, and about 40–50 per cent of total GDP. A sensible GDP growth estimate for 1999 would be 2–3 per cent.

2000 is the final year of the country's Seventh National Development Plan. Any eighth development plan is likely to continue the process — which commenced under the fifth development plan — of seeking to diversify the Brunei economy away from its emphasis on the oil and gas sector, although this remains something of an uphill task. One major constraint appears to be the difficulty in promoting an active private sector in the country, where the remunerative attractions, and various additional welfare benefits, of working in the state sector are considerable. A paucity of appropriate skills and labour (40 per cent of all workers are sourced from overseas), a small domestic market (total population is less than a third of a million), and excessive red tape also have a tendency to deter both domestic and foreign private sector investment in the sultanate. The construction sector has perhaps seen the most private enterprise activity, but this too is uncomfortably dependent upon state-funded construction projects as a source of contracts.

Data on the assets of the Brunei Investment Agency (BIA) — which manages a substantial proportion of the sultanate's foreign reserves — are not in the public domain, although the international media has speculated that the agency has faced some substantial losses over recent years, due in part to mis-management. Matters have also not been helped by the apparent collapse of the large Amedeo business group in 1998. (Both the BIA and Amedeo were headed by Prince Jefri, a younger brother of the Sultan.) However, despite the losses incurred, the sultanate's foreign exchange reserves are reported to remain healthy. And although the current account surplus has been trending down since the mid-1980s, it remains at over 40 per cent of GDP. Brunei's currency remains pegged to the Singapore dollar, at par value. (The relative strength of the Brunei dollar against that of the Malaysian ringgit prompted many Brunei citizens to go shopping across the border during 1998.)

Looking ahead, Brunei's economy should continue to grow, albeit at a pace that is not significantly greater than population growth, and at the partial mercy of future oscillations in the global price for hydrocarbons. A more impressive macro-economic performance would probably necessitate a more radical set of policy initiatives, of which there are currently few clear signs. Under the aegis of the Brunei Darussalam Economic Council, attempts to diversify the profile of the economy will almost certainly persist, as will efforts to boost the role of the private sector (including privatization of some state concerns), and Brunei Malays' participation in the non-state sector ("Bruneization"). Despite the recent ills of the BIA, and press reports of property disposals in Europe, Brunei's overseas investment profile in Southeast Asia may well increase, as the sultanate seeks to acquire some distressed business assets in the surrounding region. In the mean time, earnings derived from the country's substantial portfolio of overseas assets, and its exploitation of the sultanate's own hydrocarbon wealth, should be sufficient to support this small economy for the foreseeable future, barring no major crises.

Indonesia

Of all the Southeast Asian countries impacted by the Asian Crisis, Indonesia's economy has undoubtedly been the worst affected, and is the least able to show convincing signs of sustained recovery in the short term. As for the country's long-term economic prospects, that remains a big unknown. The domestic economy's sharp downturn (a 14 per cent contraction in GDP during 1998) subsequently mutated into a major political crisis, thereby exacerbating the economic problems that now confront the country. This same political fall-out is making the economic recovery in Indonesia much harder to achieve, as the political risk perceptions that currently plague the country (and made worse by the East Timor debacle) deter the participation of foreign capital that could do much to re-float the bankrupt corporate and banking sectors. Further, the vacuum within some of Indonesia's pertinent institutions is resulting in a lack of any coherent economic recovery policy-making, which is doing little to help matters. In the mean time, the Indonesian economy remains extremely fragile and dependent for survival upon capital infusions from external agencies.

Various domestic efforts to reform the economy and revive the corporate landscape have been overtaken by a series of political crises. As a result, economic recovery strategies enjoy a low priority among the main "movers and shakers", who are jockeying for position, or even fighting for political survival. Put bluntly, Indonesia's economy is in a frightful mess, and a resolution of its difficulties will not be attained without some easing of current political instabilities. Prospects for Indonesia's GDP growth in 1999 remained firmly negative, and the country may register only a very modest positive growth rate in the year 2000, thanks primarily to the agricultural sector. Echoing a trend across much of Southeast Asia, it has been the urbanites, in salaried employment, that have felt the force of the economic downturn more than those in rural areas who derive an income from the agricultural sector.

Despite the substantial depreciation in the rupiah witnessed since the onset of the Asian Crisis — from around 2,400 rupiah to the U.S. dollar in early 1997, to a low of almost 15,000 to the dollar in mid-1998, before bouncing back to roughly the 7,000 level — Indonesia's exports (and imports) have continued to contract substantially, as have domestic consumption and foreign investment inflows. Much of the private sector has been in no fit state to take advantage of the competitive gains to be derived from such a marked currency devaluation, with local banks unable — and foreign banks unwilling — to provide an adequate platform of trade financing necessary to transact export deals. (As of September 1999, sixty-six banks in Indonesia had been closed down.) Nonetheless, recent rises in global oil prices will have helped Indonesia with both foreign exchange earnings and fiscal revenues. Other rays of hope can be found in the significant declines registered in both inflation and interest rates during 1999, down from the distressingly lofty levels of 1998.

The reported scandals at Bank Bali and Semen Cibinong in mid-1999 have served to remind observers of the extent to which the Indonesian economy and business environment are mired in illegalities. In the case of Bank Bali, over US$60 million was allegedly paid to a company connected with the Golkar party, as "commission" for helping to recover a large claim (with a paper trail that allegedly extends to various government agencies, including the Indonesian Bank Restructuring Agency, or IBRA). At Semen Cibinong, it appears that US$250 million is unaccounted for, as revealed in preparations for a debt restructuring of the company. At the time of writing, the next instalment of the IMF's US$49 billion recovery package (three times the size of Thailand's) is in doubt, after the multilateral body expressed unhappiness with both the eruption of violence in East Timor and the Bank Bali scandal. The World Bank has also suspended its fast-disbursing budget support for Indonesia, including the Social Safety Net Adjustment Loan. Given Indonesia's fairly poor standing in the international sphere, securing prodigious external assistance for the country will not be achieved easily. Similarly, foreign appetite for private sector refinancing and restructuring deals will be diminished considerably by reports of major scandals, where the true level of debt attached to distressed assets is unclear. Even those foreign investors and creditors with the necessary tolerance levels for high risk are unable to restructure "black holes". This is a pity, as Indonesia needs foreign capital injections if its economy is to be rebuilt.

Even looking on the bright side, overcoming the private sector's substantial debt overhang, and thereby also restructuring local banks' battered loan portfolios (non-performing loan, or NPL, levels were an astounding 63 per cent in mid-1999) is going to take considerable time and effort. Recapitalizing the country's banks alone will require over US$60 billion, or two-thirds of the country's GDP, according to some sources. IBRA clearly has its work cut out in this regard, but the rebuilding of the country's banking sector is dependent upon its success. Similarly, the role of the Indonesian Debt Restructuring Agency (INDRA) and the Jakarta Initiative will be crucial in overcoming the massive corporate debt overhang. Going forward, improved economic prospects are dependent upon progress in the political sphere, particularly with regard to regaining some degree of political stability, and thereby improving foreign investors' and multilateral agencies' perceptions of political risk in Indonesia. Such an upward revision in perceptions might be expected to herald inflows of private capital and external assistance. Conversely, should the political situation worsen, there is scant chance of capital inflows, and therefore little prospect of a significant economic recovery being enacted or sustained. As the biggest country in Southeast Asia, such a gloomy scenario would not only impact on Indonesia itself, but would also have the potential to restrain — although probably not wholly discount — the economic growth trajectory of the entire region.

Malaysia

Malaysia was one of the last Southeast Asian countries to feel the full force Asian Crisis. In 1998, Malaysia's economy contracted by just under 7 per cent, reaching an all-time low around the middle of the year, shortly before the imposition of capital controls and the foreign currency peg in September 1998 (as well as the appointment of a leading U.S. investment bank as a financial adviser to the government). The imposition of the capital controls and currency peg followed a stock market fall in excess of 60 per cent during the first half of 1998 and a depreciation in the ringgit of a roughly similar magnitude over the previous twelve months. Yet just a few months later, the first signs that the Asian Crisis might be coming under control started to appear, as evidenced by most of the region's equity markets recording substantial rallies in the final quarter of 1998 and first quarter of 1999. In April 1999, the major ratings agencies adjusted their outlooks on Malaysia from negative to stable, albeit at substantially lower grades than prior to 1998.

Thanks in part to an export-led recovery, Malaysia's GDP growth for 1999 is likely to have been around 4 per cent, and a broadly similar figure for 2000 seems wholly conceivable. Beyond the aggregate numbers, the economic recovery process in Malaysia will be an interesting one to monitor, due in part to the unique policy stance the leadership has adopted in a bid to overcome the regional economic downturn. In particular, the pegging of the ringgit to the U.S. dollar, and the imposition of capital controls for one year — later modified into an exit levy for those seeking to remit profits from portfolio investments — was seen as a marked departure from the monetary strategies undertaken by Indonesia and Thailand, at the behest of the IMF. Indeed, Malaysia was the target of not inconsiderable criticism from various multilateral agencies and market commentators for its non-conformist policies in this regard. While it remains too early to tell whether the foreign exchange peg and capital controls have been "net positive" for Malaysia's economy in the long term, they do appear to have caused less damage than some had initially feared. At the very least, they temporarily halted the bleeding of the economy (as evidenced by the plummeting value of the currency and the "tanking" of the stock market) and granted time for the country to engineer a recovery strategy. The one-year holding period for capital controls ended in September 1999, with slightly over US$450 million of portfolio funds flowing out of the country in the first three days.

However, it remains unclear to what extent foreign investor confidence as been adversely impacted by the capital controls issue, and how speedily much-needed foreign capital inflows will resume in the light of this action. Other factors that have given foreign investors some cause for concern include the CLOB (Central Limit Order Book International) issue, which has yet to be adequately resolved. Those holding stock in listed Malaysian firms, acquired through Singapore's CLOB system, have not been able to trade these shares since September 1998. To date, three different proposals have been made by private sector interests in Malaysia making cash offers — at fairly substantial discounts to the market price — to buy the CLOB shares. Prior to September 1998, there was reported to be slightly under 200,000 investors holding CLOB shares, of which about 90 per cent were Singaporean. The aggregate value of the CLOB shares is estimated be around 15 billion ringgit.

In addition, concern has been expressed by some observers on the opacity of the post-

(continued on page 56)

MALAYSIA'S MULTIMEDIA SUPER CORRIDOR: REPORT CARD

By Kim Ong-Giger

Making an assessment of a project as ambitious — and with as long a gestation period — as Malaysia's Multimedia Super Corridor (MSC) is not easy, even at the best of times; much less when the project is just three years into a programme that is expected to reach final fruition in 2020. This difficulty is compounded by the aftermath of the Asian Crisis, as it is hard to isolate the effects of the crisis from other factors that may impact on the MSC's progress. Besides, it is never easy to separate hype from reality in such high-profile projects as the MSC. However, there are a few activities happening in the corridor from which we can draw some indications. First, let us examine the report card of Phase I of the MSC. Based on the criteria of target versus achievement, the MSC has so far delivered above-average performance, as there remain four years to attain the goals set out in Phase I. The MSC is reported to be almost 60 per cent of the way towards meeting both its goals of hosting world-class companies and flagship applications.

Secondly, we can examine some of the indicators of growth in the MSC, as provided in the table here. It would appear that, based on these indicators, the MSC has indeed moved from ground zero to some semblance of operational status. But when these indicators are set against the impressive list of companies, which includes virtually all the major players in Information Technology (IT) that have been awarded MSC status, there is cause for concern that the investments recorded to date are rather insignificant. According to *Business Week* (22 March 1999), investment commitments are less than one-quarter of the US$4 billion hoped for by Dr Mahathir. On the other hand, the MSC has attracted some investments, despite the adverse effects of the Asian Crisis. Does this suggest that the MSC is not without its merits, and is an attraction to investors? To answer this, we should examine the challenges confronting the MSC project and its prospects in the face of competition.

Indicators of Growth in the MSC

Indicator	1997	1998	1999
No. of companies with MSC status	47	149	228
No. of Malaysian knowledge workers	2,705	7,626	9,168
No. of foreign knowledge workers	288	710	748
Investment (RM millions)	962	1,461	2,113*
Profit (RM millions)	–23	67	347*

* Projected value for the second quarter of 1999.
SOURCE: *MSC Times*.

Challenges confronting the MSC

LACK OF INDIGENOUS IT EXPERTISE: Perhaps the greatest challenge facing any IT project is the availability of human resources that are IT-competent. The need to procure the services of the relevant IT personnel is not a challenge specific only to Malaysia. But for Malaysia, which does not have a long history of high-technology research and development, the problem of sourcing highly skilled IT professionals is very pertinent. There is also the issue of Malaysia's capacity to make sufficiently attractive counter-offers to the packages offered by other neighbouring countries to attract IT professionals. While not widely publicized, some investors are also concerned about the perceived incompatibility — real or imagined — of established cultural values and religion with some aspects of IT, and its implications for the future of IT development in Malaysia.

COMPETITORS TO THE MSC: The battle for global IT leadership is hotly contested, and is likely to remain so for the foreseeable future, given the rapid pace at which technology is evolving. The huge capital outlay required for IT investments has not stopped Asian countries from hankering after a piece of the "IT pie". Singapore's "Singapore One" and Hong Kong's "Cyberport" projects are perhaps the most obvious competitors to Malaysia's MSC initiative. Yet, another view is that the plans for an intelligent island in Singapore provides synergy with the MSC. Apart from the potential benefits of collaboration between these two IT projects, Singapore — having made a head start in its IT initiative — also offers Malaysia a model of what can be realized with its own IT ambitions. With regard to the Cyberport project in Hong Kong, this is still in its infancy, and the degree of competition that it poses to the MSC remains to be seen. According to Stan Shih, Chairman and Chief Executive Officer of Taiwan-based Acer Inc., the human resources in Malaysia are better in the long run. And since the IT industry is growing at such a rapid pace, and as no one has yet been able to claim monopoly on the kind of knowledge and development that IT continues to spawn, there should be room for all the current players.

Prospects for the MSC

Despite the many daunting challenges facing the MSC, it would be disingenuous to discount the opportunities that it offers. As with any new product, it is not only the technology that matters, but also how consumer demand and support will turn out. With the Malaysian economy showing initial signs of recovery and moving into a higher gear, businesses are likely to consolidate, and therefore require more IT services. The demand this creates could provide the test-bed necessary for some of the flagship applications. If the Malaysian Government can sustain its spending to support "e-government", that too would be an attractive incentive for IT players to make their presence felt in the MSC. In addition, efforts are being directed at equipping schools with an IT-oriented learning environment, so as to prepare young Malaysians for an increasingly IT-based economy. But it is much too early to conclude if such efforts will ultimately pay off.

crisis banking and corporate restructuring that has taken place during 1999, and the extent to which economic decision-making may have been influenced by factors and actors in the political realm. The selection process for bad loans acquired by Danaharta and the lack of public disclosure on the identity of the debtors have been cited by some critics as examples of a process that is less than wholly transparent. While it could be argued that the degree of opacity in Malaysia's corporate restructuring has been no worse than in various other Southeast Asian countries, Kuala Lumpur does appear to have drawn more criticism than others with regard to perceived "winners and losers" in this process. For example, some observers discern associates of former Deputy Prime Minister Anwar Ibrahim as the primary "losers" in this corporate restructuring exercise. Valid or not, such views have relevance if they impact adversely on foreign investor sentiment. On a less emotive level, any corporate or bank restructuring process that does not conform to sound business practice has the potential to pose problems for the economy in the longer term. It also remains to be seen how successful Malaysia will be in raising and realizing the substantial capital needed for the various restructuring efforts that have been under way. In mid-1999, an international bond issue — Malaysia's first in the 1990s — was priced at 3.3 per cent over U.S. treasury bonds, although only half of the US$2 billion targetted was raised.

Both Malaysia and Thailand saw their private sectors become highly leveraged in the run-up to the regional economic downturn, a substantial proportion of which was used to fund property projects that cumulatively exceeded sensible future demand projections. (Kuala Lumpur is currently faced with a glut in commercial and office property.) However, the profile of corporate Malaysia's private sector bad debt situation differs from Thailand's in that much of this debt is owed to domestic financial institutions. Malaysia did not operate an equivalent of Thailand's "Bangkok International Banking Facility", from which local firms could source substantial U.S. dollar credit (and the foreign exchange risk that comes with it) from foreign creditors. Also, while Thailand has witnessed a virtual credit freeze since mid-1997, as local and foreign banks alike seek to reduce their loan portfolios, the Malaysian Government has cajoled local banks to maintain credit activities in the post-crisis period, regardless of ongoing difficulties with regard to NPLs and capital adequacy levels. At the time of writing, Malaysia's banks had an average NPL rate of 15 per cent of total loans, although Danaharta and Danamodal have sought to assist Malaysian banks in remaining fully functioning, through the acquisition of NPLs and capital injections respectively.

A number of economic policy themes likely to be seen in Malaysia during the few years ahead include: a deepening of the capital markets; an emphasis on developing the country's service sector; and a possible move to revive greater activity in the agricultural sector. Although the latter had come to be regarded by many as a sunset industry, generating only modest business returns, its relative stability during the Asian Crisis served to show that it can act as an important supporting pillar in the Malaysian economy, and should not be allowed to evaporate altogether. Nonetheless, industrial manufacturing for export and IT development — under the Klang Valley "Multimedia Super Corridor" initiative (see box) — are to remain part of the economic "game plan". A gradual lifting of the exit levy for foreign investors seeking to repatriate profits is also likely, following the decision in September 1999 to reduce the previous two-tier levy system to a single rate of 10 per cent. However, no deadline has been set for the lifting of this single levy, nor for the end of the 3.8 ringgit : US$1 peg.

In July 1999, Bank Negara announced an ambitious consolidation plan for Malaysia's domestic financial sector, which if carried through will significantly alter the landscape in this particular industry. It was initially envisaged that twenty-one commercial banks, twelve merchant banks, and twenty-five finance companies would be merged into six financial conglomerates, around half a dozen anchor banks. However, at the time of writing, it remains unclear if this plan will proceed. (A parallel merger of Malaysia's sixty-five brokerage houses has also been mooted.) The manner in which this complex consolidation of the finance industry is done, and the extent to which the interests of minority shareholders are protected, could do much to set the tone of foreign investor sentiment towards Malaysia in the next few years. It is anticipated that in May 2000 Malaysia will reappear in Morgan Stanley Capital International's Emerging Market Free Index (a widely used asset allocation benchmark index for portfolio investors). If so, this is likely to herald the return of much greater foreign portfolio investment into the country by those fund managers who "weight" their portfolios in conformity with, or at least in relation to, this index. Such a substantial inflow of capital would be expected to cause a major upturn in the Malaysian stock market indices, and thereby also buoy overall business sentiment in the country.

Philippines

Relative to several other ASEAN-6 economies, the impact of the regional economic downturn on the Philippine economy was not as extreme, thanks in part to a more modest economic growth rate registered by the country in the years leading up to the Asian Crisis. Also, the Asian Crisis hit the Philippines at an earlier point in the economic cycle than it did in Indonesia, Malaysia, and Thailand, before asset bubbles had become too pronounced. Another factor that may have stood the Philippines in good stead was its fairly recent experience of boom and bust cycles (unlike some other ASEAN-6 countries), including managing an external debt crisis. As a result, policy-makers and private sector actors (including banks) alike were better prepared to react to the regional economic downturn, implementing crisis management techniques that prevented a systemic collapse. The Philippine banking sector was relatively well capitalized as the crisis unfolded, and overall bank stability benefited from reforms to the regulatory regime implemented over the preceding decade.

As a result of the above, the Philippines avoided a full-blown recession in the 1997–99 period, and saw GDP contraction of just 0.5 per cent in 1998. Although the regional economic downturn has tested the capabilities of the domestic banking and corporate sector, as a whole they did not buckle. Indeed, the negative growth in 1998 was primarily attributable to the adverse effects of El Nino on agricultural sector output (which contracted by an unprecedented 7 per cent in 1998) rather than as a result of the Asian contagion *per se*. In early 1999 the economy "bottomed out", and GDP growth for the full year was modestly positive in 1999. Domestic consumer demand has held up quite well in comparison with some other Southeast Asian countries. Having depreciated by around 35 per cent in the second part of 1997, the peso appears to have found a new level, maintaining 38–40 against the U.S. dollar throughout 1999. Looking ahead, the Philippine economy should pick up pace further during 2000 and 2001, possibly targetting an average GDP growth rate of around 4–5 per cent.

Crucially, the Philippine corporate sector did not become as highly leveraged as its counterparts in Malaysia and Thailand in the run-up to 1997. Therefore, the private sector debt burden has not been as great — although bank NPLs are still likely to peak at around 14–15 per cent (compared with 4 per cent in June 1997) — which is a fillip in terms of the country's economic recovery potential. Just one commercial bank in the Phillipines has collapsed since the onset of the Asian Crisis (along with 7 per cent of thrifts and 5 per cent of rural banks), suggesting that the banking sector's role as the primary means of financial intermediation will be able to continue without too much difficulty. However, a recent trend of banking consolidation and restructuring seems likely to persist.

As with most other Southeast Asian countries, the depreciation in the value of the peso against the U.S. dollar — following its release from a U.S. dollar peg in July 1997 — has been supportive of export growth. It has also acted as a break on imports, thereby helping reduce the trade deficit levels of the country in 1998–99 quite substantially. There are initial indications that the Philippines may also be about to enjoy an upward revision in foreign investor sentiment, as liberalization measures are enacted (including the raising of some previous ceilings on foreign equity stakes and land acquisition), and some of the country's competitive advantages receive greater attention. In particular, the comparatively advanced level of education and skills appears to be generating increasing interest among foreign semi-conductor, software, and service companies (and thereby posing a new challenge to Malaysia). In 1998, electronic products accounted for a full two-thirds of the Philippines' total exports; up from just over a third of exports in 1994. The general level of political risk also now appears more favourable, at least relative to some of the country's regional neighbours. Levels of corporate transparency and accounting standards in the Philippines also compare favourably with some regional competitors, which — particularly after the Asian Crisis — will carry an added premium among foreign investors that require these attributes in the business environment. The extent to which various institutional bodies, including the central bank, remain broadly independent of political interference may also be an asset.

In the longer term, there are a number of factors that the Philippine economy needs to address if it is to fully harness its unlocked potential. They include improved methods of domestic capital mobilization (in order to boost the low domestic savings rate), general fiscal and public sector reform, as well as thwarting the bureaucratic inefficiencies and rent-seeking that are a major drag on the economy. Care must also be taken to ensure that the "crony capitalism" business methods of the President Marcos period are not permitted to return, and conversely, that the reforms undertaken under President Aquino since 1986 — and particularly under President Ramos since 1992 — remain in place. With this in mind, it is likely that the local press will pay close attention to some major privatization projects — including Philippine National Bank and National Power Corporation — that are impending, along with various banking mergers in the pipeline and the handling of the national airline's rehabilitation, to assess whether any indication of favouritism is apparent in the deals (and potential commissions) surrounding these business assets. Judging from post-election comments made by President Estrada (who took office in mid-1998), government efforts to upgrade the country's infrastructure and allocate more resources to the rural sector will probably be more apparent in the years ahead. Any concerted attempt to reduce the degree of income inequality in the Philippines would be welcomed by many, partly through further reforms of the agricultural sector and outmoded land ownership rights.

If the Philippines wishes to build on recent successes achieved in the electronics sector, policy-makers will need to ensure that the country's human resource strengths — most notably in the field of higher education and advanced skill levels — remain sufficiently ahead of regional competitors to warrant the higher labour costs entailed. If this can be done, the Philippines should be able to attract even greater foreign investment activity in this sector (inflows of which held up quite well during the economic downturn), and increase the level of domestic value added — currently about 30 per cent in the electronics industry. Such a prospect would see the country finally harnessing an innate potential that it has so often failed to realize in the past.

Singapore

Despite its small size, and its exposure to external factors, Singapore's economy seemingly defied the laws of gravity within Southeast Asia by maintaining positive GDP growth during both 1998 and 1999. (GDP growth in 1998 was 0.3 per cent.) In 1999, Singapore's economic growth rate was markedly ahead of all the other Southeast Asian countries, and forecasts of between 5 and 6 per cent GDP growth for 2000 and 2001 seem attainable. Although some fiscal and other measures were enacted by the Singapore Government to help buoy the economy through the immediate crisis period — such as a halving of Central Provident Fund contributions by employers — the leadership was able to maintain its focus on the more long-term challenges that face the economy, most notably with regard to maintaining a competitive edge and making further advances up the value-added chain of production. Although the Asian Crisis clearly did no country in the Southeast Asian region any favours, the regional downturn did underline the extent to which sound macro-economic policies and competent financial monitoring can help ensure that the impact of a sharp economic downturn is not calamitous. In this regard, Singapore acquitted itself better than the rest. In particular, the Monetary Authority of Singapore has been commended, both for its deft handling of the regional economic downturn and for not allowing the crisis to derail measures aimed at liberalizing the financial sector.

This is not suggest that Singapore's economy has been wholly immune to the Asian Crisis. Economic growth slowed considerably in 1998, various asset prices declined as a result of reduced demand and a drop in (both business and consumer) confidence, and the quality of overseas investments and loans in countries hit hardest by the regional economic downturn have been adversely impacted. Various other regional developments have also posed challenges, including general political and economic instability issues in some neighbouring countries. The Malaysian shares traded through CLOB is just one example, in this case impacting on the financial sector in Singapore. (CLOB accounted for between 3 and 8 per cent of turnover on the Singapore stock market in the months preceding the imposition of capital controls, down from almost 25 per cent in 1997. Of the 129 firms listed on CLOB, 112 were Malaysian.) The sharp decline in Indonesia's external trading volumes throughout 1998 and 1999 would also have had an adverse effect on Singapore's external trading activities.

A global pick-up in demand for electronic components (particularly computer-related products, in advance of Y2K), along with the beginnings of a rise in domestic consumer demand, have done much to help the Singapore economy grow in 1999. Such "organic" growth drivers have also been assisted by construction projects in the public sector, such as the building of a new "mass rapid transport" railway line. Popular confidence in an economic recovery also seems apparent, as evidenced by rises in both the equity market and property prices over the last year. With a few notable exceptions, an anticipated wave of regional asset acquisitions — as major Singapore firms seek to buy distressed business assets in the region — has not been evident, albeit echoing a wider trend that has seen disappointingly low levels of Western foreign investor activity in the region. Exceptions that prove the rule include DBS Bank's investments in the Thai and Philippine banking sectors.

Looking ahead, a number of themes are likely to be apparent in Singapore's economic and business sphere in the next few years. First, a five-year plan to liberalize and deepen the banking sector and financial markets will be ongoing, as Singapore offers an increasingly persuasive challenge to regional rival Hong Kong in the fields of investment banking, and asset management in particular. At present, total funds under management in Hong Kong are far greater than in Singapore, but this imbalance is likely to change over the coming decade, as more public funds are farmed out to private fund managers, and various policies are enacted to encourage more asset management firms to establish operations in Singapore. Moves to further consolidate the domestic banking sector will probably be evident, along with a greater presence by foreign banks, development of the bond market, and fine-tuning the de-mutualization and merger of the Stock Exchange of Singapore (SES) with the Singapore International Monetary Exchange (SIMEX). Secondly, efforts to take the industrial sector to a higher level will also take tangible form, as envisaged in the Committee on Singapore's Competitiveness report of late 1998. This drive will be guided by various strategies that aim to upgrade Singapore's capacities in the broad field of information technology, and other areas of high value-added industry and services.

Also, greater input by "foreign talent" in the Singapore corporate sector, including senior management positions, will probably be more evident. We may also see moves to diversify the country's industrial sector profile, in terms of diluting both the dominance of the electronics sub-sector, and the United States as the primary export market for electronic products. (Electronics account for two-thirds of Singapore's non-oil domestic exports.) Recent efforts to promote greater economic and business links with Latin America and Europe should be seen partly in this context. But as long as the general economic prospects in the surrounding region remain hazy, as they do at present, it is likely that the Western industrialized countries will remain the central focus of Singapore's drive to expand the external wing of its economy. As in the past, Singapore's future economic growth prospects will be dependent in part on various regional factors, including the extent to which Malaysia is able to regain sustained growth momentum, and whether Indonesia's economy is able to attain some degree of stability. Given a relatively benign external environment, the prospects for Singapore's economy look better than most, due in part to the limited damage caused by the Asian Crisis, and a set of long-term policies that should orientate the country well for the challenges that lie ahead.

Thailand

After a massive 8.5 per cent GDP contraction in 1998, Thailand's economy was able to conjure up a technical rebound in 1999, returning to positive growth of around 4 per cent. Private sector investment turned positive in mid-1999, for the first time since early 1996. And in September 1999, Bangkok declared that it would not seek to draw down the final US$3.7 billion tranche of the IMF's US$17.2 billion rescue package. The sharp depreciation in the value of the currency (the baht), from the pre-crisis peg of 25 baht : US$1 to around 40 baht : US$1, acted as a major fillip for export competitiveness, which in turn has increased foreign exchange earnings and the country's current account. Thailand's foreign exchange reserves now exceed US$30 billion — markedly higher than the paltry US$1 billion in the days leading up to 2 July 1997, acting as the initial spark that ignited the Asian Crisis. Given all of the above, it is perhaps not surprising that a sense of palpable relief is apparent in Thailand, as the economy appears to be finding its feet.

However, Thailand is still faced with a massive private sector debt problem (of which only a fraction has been meaningfully restructured so far), and a banking sector that is in very poor shape indeed. Of the 106 domestic financial institutions operating in the country prior to the crisis, just under 75 per cent have been closed down, merged, or nationalized, in what has been a radical alteration to the banking landscape in Thailand. Much of the excessive lending that took place prior to July 1997 went into various property projects, the half-completed evidence of which is still very evident across Bangkok's skyline, along with a glut of fully completed property (commercial, office, residential, and industrial) capacity that will take many years to clear. Cumulative manufacturing capacity is reported to be operating at no more than 60 per cent at present. This suggests that although the economy may have "bottomed" in 1999, the recovery trajectory is unlikely to be a steep one.

A major weight on Thailand's future economic growth trajectory remains the mortifyingly substantial scale of corporate debt and the ill-health of the major domestic banks, both of which cast long shadows over the private sector and the economy as a whole. In mid-1999, the average scale of NPLs at Thailand's six largest banks (representing almost 80 per cent of the total loan market) was close to 50 per cent, with recovery rates of no greater than 70 per cent anticipated, and inadequate provisioning in place. Technically, if not literally, these figures mean that the entire banking sector in Thailand is well and truly bust. Although some NPLs are being restructured, a proportion of these are subsequently reverting to delinquency shortly after, indicating that it may take several years to get aggregate NPL levels back down into single figures. As for U.S. dollar loans extended by foreign banks to local corporates (the burden of which increased as the local currency

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THE SOCIAL IMPACT OF THE ASIAN CRISIS

By Shamira Bhanu

The economic crisis that first struck several Southeast Asian countries in the later part of 1997 has had a social dimension to it as well. The spectacular welfare gains achieved by many Southeast Asian countries, from the mid-1970s through to the mid-1990s, have to a large extent been eroded by the dramatic reversal in economic fortunes suffered by their economies.

Social sphere

The social fall-out, which has taken its toll on the well-being of millions of people in the more distressed economies has varied from country to country, the most severely affected being Indonesia and Thailand. At the other end of the spectrum is Singapore, where the economy contracted only slightly during 1998, and where the social impact of the crisis has been much less severe than in many of the other regional countries. Similarly, the oil-rich sultanate of Brunei has also remained largely immune from the worst effects of the regional financial crisis.

Among the countries worst afflicted by the regional downturn, the case of Indonesia was singular for the magnitude of the poverty crisis into which it plunged. This was as a result of the tremendous GDP decline the country suffered in the space of two years, from a 4.6 per cent growth in 1997 to a 15.3 per cent contraction in 1998. Indonesia fared badly in all the indicators used to assess the depth of the social crisis in individual countries: falling real incomes and rising poverty incidence; unemployment and retrenchment figures; reductions in government social expenditure; food security and malnutrition; education; school drop-out rates; the status of vulnerable groups, women and children; health and infant mortality trends; and social unrest, crimes, violence, and suicides. The impact of the social crisis on migrant labour should be factored in as well.

Estimates for the increase in numbers below the poverty line in the affected economies are worthy of note. For Indonesia, the World Bank estimates that a 12 per cent decline in aggregate GDP in 1998 will place poverty incidence at 14 per cent in 1999, with a realistic upper bound of 20 per cent, compared with 11 per cent poverty in 1996. For Thailand, where the official estimate of GDP decline in 1998 was around 7–8 per cent, a 1998 ILO (International Labour Organization) study placed the poverty increase to 14 per cent of the population between 1997 and 1998, compared with 8 per cent in 1996. And in the case of Malaysia, against a backdrop of zero growth in 1998, government figures cited 7.6 per cent of the population as living below the official poverty line in 1998, compared with 6.8 per cent in 1997. It is also worth noting, however, that the existing social impact data in the affected countries has come under sustained criticism, largely for being based more on speculative than conclusive evidence. This is because comprehensive and broad-based statistics on poverty, unemployment, infant and neo-natal mortality, school drop-out rates, nutrition, and the like take time to collect and process. Yet, thus far, the data disseminated has mostly been derived from small-scale studies conducted in particular locations. Also, many initial estimates were based on broad-brush assumptions, which many observers now decry as being unrealistic and unnecessarily pessimistic.

The current limitations of scarce and unsystematic documentation notwithstanding, it is possible to extrapolate some common characteristics of the social crisis across countries. First, in most of the crisis-afflicted countries it was the middle and upper classes — rather than the rural classes — that bore the brunt of the crisis, given the former's greater reliance on the financial sector. The sharp downturn in asset prices, particularly in the property and stock markets, led to a sharp reduction in this category's wealth and non-wage income. A second characteristic is that the financial crisis did not lead to a massive increase in open unemployment in urban areas, as had been anticipated by many, but rather a shift towards informal employment became apparent, much of it in agriculture and other informal market-based enterprises. This latter phenomenon has induced some commentators to go so far as to say that unemployment figures are not a good indicator of the social impact of the crisis. Instead, greater emphasis should be placed on the extent to which real wages have decreased, and the impact this has had on household spending.

Poverty alleviation strategies

Regional governments have responded to the crisis by instituting employment-generation programmes, as well as other social safety net measures, often with financial assistance from the multilateral development agencies. In the case of Indonesia, Jakarta responded by putting in place labour-intensive public works programmes to redress large-scale unemployment, and food-for-work schemes, in a bid to alleviate the likelihood of starvation in the face of sharply reduced cash incomes and spiralling food prices. Thailand also introduced a food-for-work scheme, as well as rural employment programmes to tackle the problem of widespread unemployment.

One positive upshot of the Asian Crisis has been to highlight the highly inadequate formal social safety nets that are in place in Southeast Asian countries, intended to cope with unforeseen calamities such as this. Apart from emergency poverty-alleviation strategies that were cobbled together to address the most worrying consequences of the crisis, none of the countries had in place proper social safety mechanisms that citizens could rely on to cushion them from the most immediate effects of retrenchment, unemployment, and income deprivation. This shortcoming on the part of some governments can be attributed partly to their failure to plan for the downside of economic growth during the heady days of the Asian boom. Also, some governments that have been suspicious of European-style cradle-to-grave "welfarism" — which they view as costly, inefficient, and incentive-sapping — have tended to abdicate their responsibility for social welfare provision, in the expectation that the family could be relied upon to provide a social safety net of sorts. Sadly, the crisis has revealed such expectations to have been misplaced and ill-founded, at least for an economic crisis of this magnitude.

Consequently, one of the greatest challenges Southeast Asia faces as it enters the recovery phase, and the new millennium, is to put in place comprehensive social safety net measures, in anticipation of such crises recurring in the future. Another pressing concern for policy-makers is the negative impact the Asian Crisis has had on human development, particularly in the fields of education, health care, and nutrition, and the attendant implications this has for the long-term growth potential of the countries concerned. The impact on a nation's competitive advantage aside, the social crisis is likely to exacerbate social inequality within countries themselves. A further concern is the deterioration in social capital (that is, societal cohesion) caused by the crisis, through an increase in crime, domestic violence, child abuse, drug addiction, prostitution, school drop-out rates, and child labour. These are some of the significant long-term concerns that policy-makers will have to grapple with, as the Southeast Asian countries begin to recover from the regional crisis.

THE HAZARDS OF ECONOMIC FORECASTING

By Nick J. Freeman

The volatility of Southeast Asia's economies over the last few years has made economic forecasting in the region a much more challenging exercise. Even positive economic growth rates can no longer be taken for granted in a region that had come to regard high-velocity growth trajectories as the norm, even for those countries undergoing fundamental economic transition. The Asian Crisis — "the bonfire of certainties", as one observer recently depicted it — has served to show how important it is for economic forecasters to keep an open mind when monitoring and analysing economic data, and not to become complacent in relying on just a few leading indicators. Most of the oft-used macro-economic indicators in the run-up to the events of mid-1997 did little to suggest that a massive regional economic downturn was imminent, and as a result, few economic forecasters saw the crisis coming. Multinational firms, multilateral organizations, ratings agencies, academics, banks, and brokerage houses alike, all seemingly failed to see the enormity of what was around the corner. As it turned out, this was partly because most economic observers were simply not looking at — or could not gain access to data on — all of the right economic indicators, most notably with regard to the scale and maturity profile of private sector lending levels.

The general quality and availability of macro-economic data has left something to be desired in some Southeast Asian countries, often necessitating the use of more anecdotal methods in monitoring the economic health of countries. (It appears that even the Thai Government was unaware of the depletion of its own foreign currency reserves in the weeks leading up to July 1997, let alone outside analysts.) Indeed, anecdotal methods of economic data collection and analysis are the only option available when seeking to track the "parallel" economies in some Southeast Asian countries, particularly the transitional economies. For Myanmar and the Indochina countries, the scale of the parallel economy is considerable indeed, relative to the official economy. Some estimates even put the Philippines' unofficial economy at up to 20 per cent of its national GDP. And during the height of the Asian Crisis, the unofficial economies in several Southeast Asian countries expanded significantly, as laid-off workers sought to derive alternative income from the informal sector.

This lack of quality economic data and analysis helped contribute in part to the regional economic downturn. The clearer the economic picture, the better businesses can make sensible decisions. Likening an opaque business environment to a darkened room, the chances of encountering a nasty surprise are greater when you are unable to see what is in front of you. To that extent, economic forecasters can face quite a difficult time in some countries of the region. And if the quality of data supplied is low grade, then we should not expect the quality of subsequent analysis to be anything better. One price that opaque countries pay — particularly at times of heightened sense of risk — is more restricted access to, and more expensive cost of, acquiring capital funding. In mid-1999, the Political & Economic Risk Consultancy Ltd. released the results of a survey on the quality of economic data in Asia, the results of which (for Southeast Asia) can be seen in the table on the next page. Singapore leads, by far, while Vietnam is a laggard, by far.

As a partial result of having limited access to economic and financial data, there has also been a tendency for analysts and forecasters to focus on a small number of leading indicators, such as stock market indices, in a rather heartening belief that the market knows best. But this might not necessarily be the case, particularly where fundamental data is not readily available in the public domain. As most market strategists will concede, any number of interpretations can be derived from the plotting of stock market indices, and they do not necessarily provide an indication of the fundamental health of an underlying economy. Stock market rallies can occur simply as a result of a substantial inflow of foreign funds (particularly in markets that have low volumes, such as can be

Reliability of Economic Statistics: Asia Survey Results

	Quality of Official Historical Economic Statistics	Quality of Economic Forecasts by Private Bodies
Singapore	2.55	2.60
Philippines	5.86	4.29
Thailand	6.14	6.29
Malaysia	6.25	5.25
Indonesia	6.90	5.80
Vietnam	9.00	8.50

0 = Best possible; 10 = Worst possible.
SOURCE: Political & Economic Risk Consultancy Ltd.

found in Southeast Asia), due to reasons that have little to do with the intrinsic merits of the companies represented in the market, nor the economy in which the market is situated. And yet, look at the extent to which recent forecasts of Asia's anticipated economic recovery have been predicated, at least in part, on recent stock market rallies. That said, sometimes stock markets — which tend to base prices on perceived future earnings — can be a fairly good leading indicator of an economy, as evidenced by the sustained decline in the Thai stock market for several years prior to July 1997.

The rapid pace of globalization in international business also poses new challenges for economic forecasters, as the extent to which domestic economies are exposed to external trends becomes greater and greater. Not only was the Asian Crisis due in part to actions by organizations beyond the region, but the Asian recovery will also be dependent in part upon external actors and factors. At the time of writing, the Asian recovery process is being enacted within a broadly benign external environment, but might become imperilled if the U.S. economy begins to slow markedly (stemming from a pricking of the current asset bubble), or should China's economy deteriorate substantially, or Japan's economy remain stalled, and so on. While the likelihood of the former has increased in recent months, worries pertaining to the latter two appear to be slowly abating. But the wide spectrum of scenarios available make it increasingly difficult to provide an economic forecast for the Southeast Asia region that realistically enjoys a comfortably high probability rate. (No wonder we often hear quips about economic forecasting being invented in order to make weather forecasters look good.)

Indeed, one could perhaps argue that the main factors that will determine much of Southeast Asia's economic fate, including its chances of sustained recovery, currently lie beyond the region, and in particular on what transpires in the United States, Japan, and China. After ten years of economic growth in the United States, a "hard landing" for that economy would undoubtedly send ripple affects across all of Asia, possibly discounting much of what has been achieved since 1998. Although there are some initial signs that Japan's economy may have turned the corner, its stubborn recession has diminished the chances that Asia's largest economy will be able to play a major role in recapitalizing and re-invigorating the Southeast Asian economies. And some form of sharp economic downturn in China — or a policy move away from reform — would serve to further tarnish East Asia's image in the eyes of the primary exporters of investment capital and credit, and do little to help rebuild investor confidence in global emerging markets in general. For such a "big picture" perspective, the relative importance of such Southeast Asian "specifics" as the work-out of private sector debt in Thailand, or the lifting of capital controls in Malaysia, or the resumption of financial intermediation in Indonesia, appears less. That said, a successful outcome to these Southeast Asian "specifics" are prerequisites, if the region is to return to a sustained economic growth trajectory. And for the region's policy-makers, while there is little they can do to determine the outcome of the big picture themes, they do have the ability to determine some of the Southeast Asian "specifics".

A LEXICON OF POST-CRISIS FINANCIAL AND CORPORATE RESTRUCTURING BODIES IN SOUTHEAST ASIA

Indonesia

INDONESIAN BANK RESTRUCTURING AGENCY (IBRA): Established in early 1998 under the Ministry of Finance, IBRA is mandated to assist in the restructuring of Indonesia's banking sector, through the acquisition and management of distressed banks and their assets. In 1999, IBRA began managing seven of the twenty-four banks classified as "unsound" (that is, with capital ratios below -25 per cent) under the bank recapitalization scheme, in addition to a further four banks it took control over in 1998. In mid-1999, a five-person Independent Review Committee was established to oversee IBRA. An Asset Management Unit operates under IBRA to acquire NPLs of banks classified as "viable" (that is, with capital ratios between -25 and 4 per cent) under the bank recapitalization scheme. Over 220 trillion rupiah in loans have been acquired by IBRA so far, and sales of bank assets commenced in mid-1999.

INDONESIAN DEBT RESTRUCTURING AGENCY (INDRA): Established in mid-1998 under Bank Indonesia, INDRA is intended as a vehicle to assist the Indonesian corporate sector overcome its foreign currency bad debt problems with overseas banks. Under the INDRA scheme, NPLs are restructured over eight or more years, with payments made at a fixed exchange rate for the rupiah. INDRA is part of the wider "Jakarta Initiative" unveiled in September 1998, which is a policy that aims to guide the voluntary restructuring of private sector debt.

JAKARTA INITIATIVE TASK FORCE (JITF): The JITF is an out-of-court platform established in September 1998 to facilitate in the restructuring of corporate debt for voluntary participants only. By mid-1999, it was reported that over 250 firms were being assisted by the JITF, of which twenty-four had succeeded in inking stand-still agreements or agreements in principle. The 250 or so firms have an aggregate foreign debt of US$21.4 billion, and 13.6 trillion rupiah in domestic debt.

NATIONAL COMMITTEE FOR CORPORATE GOVERNANCE (NCCG): The NCCG was established in 1999 with assistance from the World Bank to recommend a code of Good Corporate Governance for the Indonesian business sector.

Malaysia

CORPORATE DEBT RESTRUCTURING COMMITTEE (CDRC): Under Bank Negara, the CDRC is designed as a platform to bring debtors and creditors together in a bid to assist viable companies. Under the scheme, banks are requested to delay bringing bankruptcy proceedings while a restructuring deal is formulated. By mid-1999, loans amounting to over 32 billion ringgit were under restructuring by the CDRC, with thirteen cases having been completed, though some (including Renong) are still awaiting creditor approval.

DANAMODAL NASIONAL: Danamodal Nasional was formed in August 1998 under Bank Negara to help recapitalize weak domestic banks in co-ordination with Danaharta. Danamodal is reported to have injected US$1.6 billion into ten financial institutions by mid-1999, primarily financed through zero-coupon bond sales. Ultimately, Danamodal will seek to sell its equity interests in these banks within five years. Any "profit" from the sales will be distributed among shareholders of Danamodal. Having taken an equity stake in a bank, Danamodal may seek to enact mergers and/or make changes to top management, along with setting various performance targets. Pertinent NPLs must be sold to Danaharta.

PENGURUSAN DANAHARTA NASIONAL: The Pengurusan Danaharta Nasional was established by the Ministry of Finance to purchase, manage, and then dispose of corporate NPLs of banks, in order that these banks can continue with lending activities in strategic sectors. By mid-1999, Danaharta had acquired roughly 2,200 NPLs — worth roughly 39 billion ringgit, or 36 per cent of total NPLs — financed through the issuance of five-year, government-guaranteed zero-coupon bonds. (There is an option for the bonds to be rolled over for a further five years.) Bond repayments are to come from the sale of assets provided as collateral for the original loans. Of any "profit" incurred by Danaharta in disposing of an NPL, 80 per cent is to be given to the bank from which it was bought.

Thailand

ASSET MANAGEMENT CORPORATION (AMC): The AMC was established in late 1997 to act as bidder of last resort at FRA auctions (see below). To be funded through bond issues, it can manage assets for up to five years. The Property Loan Management Organization is a property-related AMC that acquires bad loans that were initially secured by incomplete property projects.

CORPORATE DEBT RESTRUCTURING ADVISORY COMMITTEE (CDRAC): The CDRAC was established by the Bank of Thailand to assist the restructuring of just under 700 target companies, with an aggregate debt of 1.5 trillion baht, or 56 per cent of total NPLs in Thailand. The CDRAC has put forward two restructuring methods: the Debtor-Creditor Agreement, and the Inter-Creditor Agreement.

FINANCIAL INSTITUTIONS DEVELOPMENT FUND (FIDF): Formed in 1985, the FIDF is currently assisting in the recapitalization of unsound banks, financed by government bonds. A scheme to bring under-capitalized banks' "tier 1" capital back to 2.5 per cent of assets has been introduced, with injections of capital in the form of ten-year government bonds. Tough conditions attached to the scheme include the applicant bank: having its restructuring plan approved by the Bank of Thailand; meeting new loan classification and provisioning requirements; agreeing to allow changes to senior management; and recognizing the new capital as having preferential status over existing shareholders.

FINANCIAL SECTOR RESTRUCTURING AGENCY (FRA): The FRA was established in late 1997 to acquire the assets of fifty-six finance firms that were closed down in late 1997, and dispose of them (partially through auctions). Most physical assets were sold in 1998 at around half of book value. A larger auction of corporate loans in August 1999 proved more difficult, with bidders seeking prices at below 25 per cent of book value.

RADHANSIN BANK: Radhansin Bank was established in early 1998, with the World Bank and the ADB providing funding support, ostensibly to bid for higher-quality assets at FRA auctions. This body took over the management of Laem Thong Bank prior to onward sale.

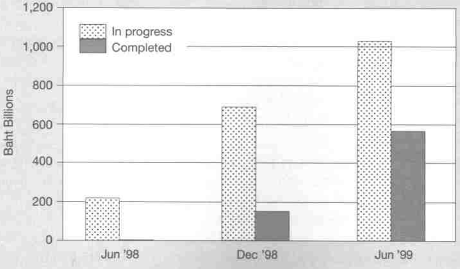
SOURCES: Bank for International Settlements; International Monetary Fund; Asian Development Bank.

"tanked"), many of these loans have been rolled over and have yet to be restructured. As at mid-1999, it was reported that the amount of corporate debt to have been restructured amounted to 567 billion baht.

Moves to inject fresh capital (and expertise) into some domestic banks through foreign investment have proved slow, as major local shareholders have sought to resist these efforts, preferring instead to stonewall efforts at debt restructuring. This attitude reflects in part an anxiety among some Thais at the perceived "invasion" of foreign — particularly U.S. and European — investors, seeking to take advantage of the country's misfortune and buy cheap assets. (The inability of former Thai Deputy Prime Minister Supachai to secure the job of WTO (World Trade Organization) chief may have also served to heighten any anti-Western sentiment.) While such emotions are understandable, this sort of mindset has the potential to lengthen the recovery process. Foot-dragging by politicians is also apparent in passing some of the reforms to the country's business regime, as well as in long-awaited moves to partially privatize various state assets, including elements of the telecommunications sector and the airline. The close links that exist between major politicians (some of whom are business tycoons in their own right) and powerful business interests further complicate matters; it should not come as a surprise to find that some politicians are reluctant to pass legislation that they perceive will be to the detriment of their own business interests.

In the first half of 1999, an Alien Business Law was passed by government, partially liberalizing the business regime for foreign investors, and a new bankruptcy law was also approved (intended to replace an earlier bankruptcy law that dated from 1945). For the latter, the test will come in implementing the bankruptcy and foreclosure laws, which will

FIGURE 3
Thailand: Corporate Debt Restructuring, 1998–99
(baht billions)



Sources: Bank of Thailand; World Bank.

necessitate a leap into the unknown for a judiciary relatively ill-equipped to handle this new mandate. Those familiar with the judicial system in Thailand are not expecting this process to be a smooth one, and observers will be watching closely to see what transpires. Evidence to support a degree of cynicism can be found in the manner with which the Finance Sector Restructuring Agency (FRA) went about the auctioning of assets that had previously belonged to the fifty-six finance companies shut down by the government in late 1997. "Winning" bids that were not as high as the FRA had in mind were not successful, somewhat defeating the purpose of an auction.

Looking ahead, the prospects for Thailand appear much better than they did in 1998, although any sense of optimism should remain tinged with caution. There is much work still to be done if Thailand's economy is to get back on track, and the potential for back-sliding on reform policies is a very real one. Thailand's Board of Investment has been promoting the country to foreign investors with a simple graphic that depicts the sun coming out from behind the clouds in 2000. While Thailand may indeed see blue skies in 2000 and 2001, there remains the potential for patchy cloud, and one should remain vigilant for the odd thunderclap that might herald more stormy weather. The prospect of a national election before the end of 2000 will, at the very least, be a temporary distraction away from the economic reform agenda, and could cause fragile foreign investor confidence to wobble in the short term. That said, Thailand's ability to transfer political power without necessarily causing substantial economic and business dislocation is, like the Philippines, an asset that some other regional countries do not currently enjoy.

INDOCHINA AND MYANMAR

Nick J. Freeman • Mya Than

- The Asian Crisis has impacted the transitional countries of Southeast Asia harder than most had initially anticipated, and their economic reform programmes are in low gear as the leaderships debate how best to proceed.
- We have yet to see a coherent post-crisis recovery policy emerge from Indochina and Myanmar, leading us to believe that the transitional countries of Southeast Asia will lag the rest of the region in regaining full economic growth momentum.
- Recent sharp declines in foreign investment inflows and export earnings will place added strains on these already weakened economies, and their fragile foreign exchange reserves in particular.

Although it may have initially seemed as if the transitional countries of Southeast Asia — Cambodia, Laos, Myanmar, and Vietnam — would be spared the full impact of the Asian Crisis, this ultimately proved not to be the case. It had been hoped that the contagion that spread through the financial markets of the ASEAN-6 would not really hit the relatively protected and youthful financial markets of Indochina and Myanmar. While this proved to be largely correct, the financial crisis in East Asia mutated into a wider downturn in most of the "real economies" of the region, which then transmitted itself to the transitional countries of Southeast Asia. For example, while Indochina and Myanmar were initially immune from problems faced in Asia's stock markets (they have none) and currency markets (their currencies are not freely convertible), the crises in the surrounding region caused inflows of much-needed foreign investment to dry up, and demand for export products to weaken. This then fed back into the domestic economies of the transitional countries, resulting in similar macro-economic symptoms as those being endured by the ASEAN-6, including reduced GDP growth and downward pressure on the local currency. Yet, while some of the ASEAN-6 economies are now showing signs of post-crisis recovery, the same cannot yet be said of Indochina and Myanmar.

TABLE 6
Indochina and Myanmar: External Debt Statistics, 1997–99
(US$ millions)

	End 1997	Mid-1998	End 1998	Mid-1999
Cambodia				
Bank loans*	32	35	39	49
Multilateral claims	282	301	346	354
Bilateral loans	245	—	245	—
Laos				
Bank loans*	78	72	73	91
Multilateral claims	841	859	969	963
Bilateral loans	19	—	25	—
Myanmar				
Bank loans*	114	111	294	676
Multilateral claims	1,154	1,120	1,210	1,167
Bilateral loans	2,793	—	3,047	—
Vietnam				
Bank loans*	1,625	1,419	1,504	1,481
Multilateral claims	1,249	1,393	1,623	1,689
Bilateral loans	1,272	—	1,845	—
Brady bonds	559	559	559	559
Non-bank trade credits	547	510	1,015	—

* Bank loan data cited as at mid-1999 is in fact for March 1999.
SOURCES: Bank for International Settlements–International Monetary Fund–Organization for Economic Co-operation and Development–World Bank, *Statistics on External Debt.*

Looking ahead, what is perhaps the area of greatest concern for the economies of Indochina and Myanmar is the general lack of a convincing policy response to the Asian Crisis, coupled with the prospect of a markedly less benign external environment. With luck and determination, the ASEAN-6 countries are about to embark on recovery paths, by employing a broad spectrum of policy initiatives — including various business liberalization and reform measures — aimed at reviving their economies. In contrast, the transitional countries have been slow to put forward any coherent recovery plans in this regard, opting instead to adopt a more piecemeal set of micro-reform measures, at best. This probably stems in large part from a genuine sense of confusion within the various leaderships as to what is the best way forward, now that the perils of the free market system have been highlighted by the financial crisis. A return to command economy policies is simply not a viable option, but the luster of market economies has also been tarnished, leaving a question mark as to the right path to pursue.

The Asian Crisis also came at a time when the first phase of economic liberalization in Indochina and Myanmar had begun to see diminishing returns, and a second phase of economic reform measures were becoming necessary. A second phase is not only necessary to help take these countries to the next level of development, but also to tackle some of the fundamental weaknesses that were not overcome by the first phase of reforms, such as the thorny issue of state sector losses and domestic banking debts. But the resolve necessary to make that leap, as advocated by reformist elements within the leaderships, seems to have been dissipated by the impact of the Asian Crisis. Conversely, for those elements seeking to stall the economic reform process, the regional economic downturn has been grist to their mill. As a cumulative result, the lack of a coherent policy means that Indochina and Myanmar are likely to be laggards in Southeast Asia's post-crisis recovery story. Should the economies of Indochina and Myanmar fall further behind the other Southeast Asian countries, this will pose an added challenge for the recently expanded ASEAN.

Cambodia

The year 1998 was the worst for Cambodia's economic performance since the country switched to a market-oriented economy. In effect, there was no economic growth Cambodia during 1998. This was due to various factors: political, economic, and climatic. The uncertainties in political development during the elections of July 1997, the economic doldrums since the second half of 1997, and drought — all served to drag down the growth rate to zero level. The loss of external aid, caused mainly by the ousting of the coalition partner (co-prime minister) Prince Ranariddh by Hun Sen also made a significant contribution to the non-growth of 1998. Another area of concern for the economy was a decrease in fiscal revenues; dropping from 9.7 per cent of GDP in 1997 to 8.5 per cent in 1998, due in large part to various tax shortfalls, such as royalties on logging.

Furthermore, because of unfavourable weather conditions — a cocktail of floods and droughts since 1996 — the performance of the agricultural sector has been deteriorating; the growth rate of the sector declined from 2.4 per cent in 1997 to 1.4 per cent in 1998. The service sector, especially retail trade and tourism, and the industrial sector both remained stagnant. Foreign direct investment has also declined sharply, since the largest investors in Cambodia are from ASEAN countries, the majority of which have been badly affected by the regional crisis. The crisis also resulted in a sharp depreciation in the local currency, the riel, by 10 per cent against the U.S. dollar and about 30 per cent against the Thai baht. This in turn pushed the consumer price index from 9.1 per cent in 1997 to 12.0 per cent in 1998. However, the garments sector boomed in 1998, primarily as a result of the GSP (Generalized System of Preferences) status the United States had extended to Cambodia, which acts as a fillip on exports. The export of garments has become the single largest official export item, accounting for US$390 million, or just under 40 per cent of total exports. In 1998, the export sector grew 12.8 per cent, whereas imports increased by only 3.4 per cent.

TABLE 7
Cambodia: Major Economic Indicators, 1996–2000
(percentages)

Item	1997	1998	1999	2000	2000
GDP growth	2.0	0.0	4.0	6.0	6.0
Gross domestic investment/GDP	19.0	15.0	18.4	19.0	—
Gross national savings/GDP	10.6	5.9	7.6	8.1	—
Inflation rate (CPI)[a]	9.1	12.0	10.0	6.0	8.0
Money supply (M2) growth	16.6	15.7	30.0	25.0	—
Fiscal balance/GDP	−4.2	−3.9	2.1	−2.5	—
Merchandise exports growth[b]	63.1	12.8	17.7	15.0	18.5
Merchandise imports growth[b]	2.1	3.4	21.4	18.0	20.0
Current account balance/GDP[c]	−8.4	−9.1	10.8	−10.9	—
Debt service/exports[d]	2.3	2.4	2.3	3.1	—

[a] Final quarter basis.
[b] Excludes re-exports.
[c] Excluding official transfers.
[d] As a percentage of domestic exports of goods and services only, in convertible currencies only.
SOURCES: Asian Development Bank; author.

Clearly, 1998 was not a good year for Cambodia, but the economy seemed to have improved in 1999. In February 1999, multilateral and bilateral aid donors decided to give Cambodia financial aid worth US$470 million for the year. This was largely because the political environment had improved: a new government had been installed which seemed to have won the approval of international agencies. In addition, the rice harvest in 1999 turned out to be better than expected. Since the agricultural sector represents more than 40 per cent of the entire economy, the good harvest will definitely boost the overall performance of the economy. The GDP growth rate for 1999 was estimated at 4.0 per cent. Furthermore, as the regional crisis is bottoming out, FDI may begin to flow in again, and the riel should regain some stability. This also means that the inflationary pressure is likely to ease.

Economic prospects for the years 2000 and 2001 are also expected to improve, and there are several reasons for this. Firstly, political stability has to some extent been restored. Secondly, ASEAN accepted Cambodia as a full-fledged member in April 1999. Thirdly, as far as the regional crisis is concerned, the worst appears to have been over. Hence, business in the trade and tourism sectors is expected to pick up, and foreign as well as domestic investment should be increasing. Fourthly, multilateral and bilateral agencies have resumed their aid to the country, creating a more conducive environment for industrial growth. Fifthly, the government introduced a value-added tax system in February 1999, which should assist fiscal revenues, and it is planning to carry out reform measures within the civil administration and the army. Phnom Penh has also announced that the rubber industry will be privatized. Such reforms suggest that the government is serious in carrying out structural reforms, which in turn should boost the overall economic performance of the country in the near future. Nevertheless, there remains the thorny issue of the trial of former Khmer Rouge leaders, which could create political instability and undermine the confidence of international funding agencies. But in sum, positive factors outweigh negative ones, and it is likely that Cambodia will chalk up a GDP growth rate of about 6 per cent in 2000 and 2001.

Laos

Previously a centrally planned economy, Laos has spent the last twelve years gradually enacting an economic liberalization programme, broadly in tandem with economic reforms conducted in neighbouring Vietnam. In mid-1998, the IMF judged that Laos "now has the basic ingredients of a market-oriented economy". Significant strides have been made to improve the living standards of its populace, most notably within the urban areas, although Laos remains a less developed country. (The average per capita GDP is around US$400 per annum.) However, the continued adherence to socialism in the political sphere ensures that certain informal parameters are set on the direction and depth of economic liberalization measures. Approximately half of the country's GDP stems from agricultural activities, with the balance split almost evenly between the service sector and a small, light industrial base.

With an economy heavily oriented towards Thailand, it is not at all surprising that the recent economic downturn in this southern neighbour has impacted significantly on Laos.

What has been surprising, however, was the sheer force of the impact on the Lao economy, which has almost literally knocked this small country sideways. The most extreme impact has been registered in the rapid depreciation of the Lao currency, the kip, at a rate of decline only rivalled by the Indonesian rupiah. Yet, unlike Indonesia, there has been no political unrest in Laos; and, unlike Thailand, the Lao currency is not freely convertible. And, unlike both Indonesia and Thailand, Laos has almost nothing in the way of financial markets (the primary form of retail savings in Laos remains livestock); all of which serves to show that the effects of contagion can be extreme, and transmitted through various means. The sharp depreciation in the value of the kip has led to imported inflation, as the price of foreign goods, which account for a large proportion of all processed or manufactured items, has spiralled upwards. Inflation in 1998 was well in excess of 100 per cent, prompting stockpiling and hoarding, thereby exacerbating matters further.

Foreign investment inflows to Laos have declined precipitously in recent years, leaving foreign aid and external assistance as the primary means of propping up an economy that has yet to show signs of becoming a "going concern". As a cumulative result, Laos is entering the new millennium in very poor macro-economic shape. However, the propensity for the Lao economy to collapse altogether probably remains fairly slight. A large proportion of the population lives outside the small number of urban enclaves, and has a relatively self-sufficient existence that distances them from the worst effects of the economic downturn. Within the urban areas, the government is adopting various methods that seek to ensure the recent devaluation — and imported consumer price rises that come with it — do not cause a level of distress that might spark some form of socio-political instability. Meanwhile, relatively substantial external assistance from various bilateral and multilateral agencies is almost certain to continue, thereby keeping the economy afloat (primarily by payrolling the substantial budget deficit), although doing little to wean Laos away from its dependence mentality.

The economic prospects for Laos are not completely bleak, as there are a few signals worthy of guarded optimism. Initial indications suggest that 1997's high-risk strategy of spending a substantial proportion of the country's foreign exchange reserves to buy water pumps, in a bid to radically increase the amount of land suitable for dry season cultivation (up by over a third in two years), seems to be paying off. Rice yields are up significantly, and similar increases in other crop harvests are likely to follow. The two-year (1999–2000) "Visit Laos" tourist promotion exercise is also being enacted in a fairly convincing manner, and could do much to draw in foreign exchange earnings, although the timing of the regional economic downturn — and problems with the national airline — has not done Laos any favours in this regard. Laos has also worked hard to unburden the economy from a loss-making state sector, which had the potential to be a major drag on the national budget. (See Table 8.) Since 1989, Laos has jettisoned a large proportion of its state enterprises through various divestment procedures, including the selling of some major state assets to foreign investors. Even the national telecommunications company is now a foreign joint-venture firm, in an industry that most Asian countries are normally reluctant to open to foreign equity participation. It is intended that just thirty-two firms will ultimately remain under state control, and be restructured in conformity with more profit-oriented mandates.

What the Lao leadership has yet to provide is a coherent portfolio of policy prescriptions aimed at overcoming the current economic recession. A rare cabinet reshuffle in August 1999 — which saw the departure of both the central bank governor and the deputy prime minister responsible for the finance ministry portfolio — indicated the extent to which the economy has become derailed. Clearly, some new thinking is required if the Lao economy is to be revived and economic growth is to be sustained long term. Yet Laos is not known for its radicalism in economic decision-making, and has little in the way of mentors that could provide an appropriate (or acceptable) strategy for Laos to emulate. The impact of the regional economic downturn on various Southeast Asian countries, and Thailand in particular, has undermined those reformers seeking to liberalize the economy, and possibly given added leverage to those opposed to economic reform. The Asian Crisis also seems to have prompted the Lao leadership to seek closer ties with its fraternal socialist neighbours, China and Vietnam, partly in a bid to fill the vacuum left by departing Thai and other ASEAN-6 investors. But neither Beijing nor Hanoi — both of which have major macro-economic troubles of their own — are equipped to provide Laos with an economic model that would have much chance of breathing new life into the Lao

TABLE 8
Laos: Privatization of State-Owned Firms, 1989–98

Year	No. of Enterprises Privatized	Cumulative Asset Value (US$ millions)
1989	2	14.2
1990	3	2.0
1991	12	13.4
1992	22	11.9
1993	14	22.4
1994	11	4.4
1995	11	4.4
1996	15	47.2
1997	13	3.1
1998*	32	—

* Enterprises remaining, and scheduled to have been privatized in 1998.
SOURCE: International Monetary Fund.

TABLE 9
Laos: Selected Economic Indicators, 1995–2000F

	1995	1996	1997	1998	1999F	2000F
GDP growth rate (% change)	7.0	6.9	6.9	4.0	4.0	3.0
Agriculture (% change)	3.1	2.8	7.0	3.7	—	—
Industry (% change)	13.1	17.3	8.1	8.5	—	—
Services (% change)	10.2	8.5	7.5	4.8	—	—
Exports						
US$ millions	312.8	320.7	316.9	387.6	350.0	—
Growth rate (% change)	4.2	2.6	–1.4	22.3	–9.7	—
Imports						
US$ millions	588.8	689.6	647.9	620.7	450.0	—
Growth rate (% change)	4.4	17.1	–6.0	–4.2	–27.5	—
Balance of payments (% of GDP)	–13.2	–16.1	–16.1	–10.4	—	—
Foreign investment inflows (US$ millions)	95.0	160.0	90.0	—	—	—
Inflation rate (CPI) (% change)	22.6	13.0	19.3	90.1	40.0	—
Money supply (% change)	16.4	26.7	65.8	109.7	80.0	—
External debt outstanding						
US$ millions	2,068	2,175	2,323	—	—	—
Debt service ratio (%)	5.7	5.9	9.5	11.9	—	—
Gross foreign reserves of the banking system (US$ millions)	191.0	279.0	220.0	—	—	—
Import cover (months)	3.9	4.9	4.1	—	—	—
Gross foreign reserves of the central bank (US$ millions)	1.9	2.9	2.5	—	—	—
Exchange rate (kip/US$ annual average)	804.7	921.1	1,256.7	3,045.0	8,500.0	—

F = Forecast.
Sources: Asian Development Bank; International Monetary Fund; *Financial Times*; Economist Intelligence Unit; author.

economy. Indeed, Vientiane might be able to teach Hanoi and Beijing a thing or two about such issues as state sector divestment.

Finally, the reliance that Laos had placed on constructing a spate of hydropower projects to generate electricity for export to Thailand (most of which have subsequently stalled at the feasibility stage), has served to underline the perils of placing too many eggs in one basket. Going forward, Laos might be well-advised to seek a more diverse industrial development programme that better harnesses existing resources and expertise, in areas such as coffee and other cash crop production and processing, silk manufacture, wood products, textile weaving and garment production, "eco-tourism", and possibly some mineral extraction. There are potentially large productivity gains to be made from developing these fledgeling industries along more commercially oriented and efficient lines, although it remains unclear whether the militarily oriented leadership has an appreciation of the sort of business environment needed to make this a tangible reality. Although it has often been said, it is no less true that Laos' long-term economic prospects will be greatly dependent upon making gains in the broad field of human resource development. Laos is a country that has yet to fully recover from the civil war prior to 1975, the mass exodus of many middle-class Lao after 1975, and economic mis-management in the decade that followed. Improving the education and skill levels of the population is a necessity that pertains right across Laos, from the most remote villages to some of the most senior policy-makers.

Myanmar

Myanmar's economic growth during the recent Four-Year Plan (1992/93 to 1995/96) was impressive, registering an average annual growth rate of 7 per cent, which is higher than the government's target of 5.1 per cent. However, the economy started to slow down in financial year 1996/97 with the GDP growth rate falling from 6.4 per cent in 1996/97 to 5.7 per cent in 1997/98, and then to 5 per cent in 1998/99. The main reason for the slowdown in economic growth during this period was the decline in output from the agricultural sector, due in part to droughts and flooding, as well as a shortage of inputs (fertilizers, pesticides, and fuels). The agricultural sector saw growth dip from 3.8 per cent in 1996/97 to 2.5 per cent in 1998/99. During normal climatic conditions, the cultivated area of summer paddy covers about 15 to 20 per cent of the total paddy area in Myanmar. However, early monsoon rains and fuel shortages in 1999 may affect the summer paddy cultivation, which in turn could impede agricultural sector growth.

Although the processing and manufacturing sectors seemed to have performed quite well in 1998/99, registering 6.7 per cent growth, the energy and power sectors have recorded negative growth, and this has the potential to constrain growth prospects for the industrial sector in 1999/2000 and beyond. In addition, the growth trend in the service sector indicates a downward direction, due primarily to declining performances in the trade, financial, and transportation sectors.

A general lack of stabilization reforms, some back-tracking on trade liberalization measures, and the indirect impact of the regional crisis have also played a part in Myanmar's recent economic deterioration. The inflation rate is still persistently high, at around at 30 per cent. Looking ahead, the budget deficit — of about 7 per cent of GDP — and continued expansion in money supply (to help finance the budget deficit) will probably push the inflation level to as high as 50 per cent, since the price of almost all consumer goods have shot up. Even the price of quality rice, the main staple food item, increased from 6,000 kyats per bag in August 1998 to 7,000 kyats one year later. At the same time, the market value of the local currency is currently about sixty times the official rate of 6 kyats per U.S. dollar.

The trade sector, especially cross-border trade, is also slowing down and prospects do not appear encouraging, due to new restrictions in imports and exports, which are widely regarded as inward-looking measures in response to the regional crisis. The decline in border trade, as well as the discouraging prospects for official external trade, was a result of Yangon's "knee jerk" policy response to the regional financial crisis — imposing restrictions on private sector trade, in addition to introducing export tax and various other constraints. The new restrictions include an extension of the list of prohibited export items (altogether twenty-six items), such as rubber and sugar, in addition to key items such as rice and teak for the private sector. The government announced first that exports of items not included in the list would be subject to a 5 per cent export tax, and then later doubled the levy to 10 per cent. Moreover, imports of consumer goods — such as seasoning powder, soft drinks, biscuits, canned foods, fresh fruits, alcohol products, and cigarettes — were banned in April 1998. Importers must also buy a proportion of the so-called "A-List" (priority) goods when buying "B-List" (non-priority) ones. In addition, the government raised tariffs on many items that are traded along the border with Thailand, some to over 300 per cent, and border trade must now be conducted in U.S. dollars. Moreover, to tighten exchange controls, the government has resorted to administrative measures that partly reverse previous business liberalization efforts, by suspending foreign exchange licences that had been issued to some private banks. As a result, foreign exchange operations have once again been brought under the government's control. As long as these restrictions are in place, the prospects for the trade sector in the coming years are not favourable.

These restrictions were imposed despite an (official) average annual growth rate of more than 5 per cent during the regional crisis period, which could be considered a very good performance, particularly when compared with neighbouring ASEAN countries. According to the governor of Myanmar's central bank, "the authorities had managed to keep the country afloat by enforcing strict fiscal discipline and controlling public expenditure, while keeping the budget deficit under control". However, these policy responses of the government suggest that the country has become more inward-looking, with the government reversing some of its previously introduced liberalization measures. On the other hand, the government is encouraging domestic private sector investors to actively participate in agricultural projects, and it is also promoting some industrial zones.

The impact of the regional financial crisis can be measured both in terms of FDI and trade, although the negative impact of the Asian Crisis is far more apparent in the FDI figures than in the country's external trade numbers. Myanmar's approved FDI fell from US$2,814 million in 1996/97 to US$777 million in 1997/98, and then down to a mere US$29.5 million in 1998/99. This is largely because most of the top investors in Myanmar are ASEAN countries — such as Singapore, Thailand, Malaysia, and Indonesia — all of which have been adversely impacted by the Asian Crisis. The actual amount of FDI in the country is much less than that mentioned in the official statistics of investment pledges, since most FDI projects have been postponed or withdrawn. As ASEAN countries are in the process of recovering, near-term prospects for FDI inflows are not encouraging.

Although the country's official foreign trade is increasing in absolute terms, it is declining when measured relative to the GDP. The regional crisis affected border trade particularly, most notably with Thailand and the Yunnan province of China. This trend was due mainly to a reduction in competitiveness and a lower regional demand for Myanmar's

TABLE 10
Myanmar: Selected Economic Indicators, 1995–2001F

	1995/96	1996/97	1997/98	1998/99[a]	1999/2000F	2000/2001F
GDP (%)	6.9	6.4	5.1	5.0	3.5	4.0
Agriculture	5.5	3.8	3.0	2.5	3.5	3.5
Manufacturing	7.6	5.5	5.0	6.7	6.0	4.0
Services	9.3	8.0	8.4	8.3	5.0	6.0
Money supply (M1) (% change)	28.2	31.0	30[b]	30[b]	—	—
Inflation rate (CPI) (% change)	31.8	20.0	33.9	49.8	50.0[b]	50.0[b]
Exports						
US$ millions	880	875	960	—	—	—
% change	9.6	−0.6	9.7	—	—	—
Imports						
US$ millions	1,811	1,894	2,145	—	—	—
% change	21.7	4.6	13.3	—	—	—
Current account balance (US$ millions)	−404	−473	−815	—	—	—
Exchange rate (kyat/US$1)						
Official	5.6	5.9	6.2	—	—	—
Market	125	160	250	320	360[b]	400[b]

F = Forecast.
[a]Plan targets
[b]Calendar year.
Sources: Asian Development Bank; Economist Intelligence Unit.

products, as a result of a sudden depreciation of regional currencies against the U.S. dollar. According to Thailand's Customs Department, Thailand's border trade with Myanmar fell more than 42 per cent between the years 1997 and 1998.

To conclude, growth performance during the recent Four-Year Plan was quite impressive, but the growth trend has started to decline since 1996/97. The country's current economic woes include a budget deficit, a trade and current account deficit, persistently high inflation, an unrealistic foreign exchange rate, a severe shortage of foreign exchange, low rates of savings and investments (less than 20 per cent of GDP), as well as the adverse effects stemming from a reversal of business liberalization measures. Moreover, revenues from the sale of natural gas, from the offshore Yadana field to Thailand, will now not flow until the year 2001. Given this situation, the prospects for economic growth in 1999 and 2000 are not very encouraging for Myanmar. The country's future economic outlook is uncertain, unless there are at least two successive good harvests, along with the introduction of more business reform measures. It is important to note that political tensions may also play an important role in the economic performance of the country. All in all, growth rates for 1999/2000 and 2000/2001 are forecast to be around 3.5 per cent and 4.0 per cent respectively.

Vietnam

Vietnam is now roughly a dozen years into an economic reform programme, commonly referred to as *doi moi*, which has entailed the incremental liberalization of what was a centrally planned economy. The reform process has proved remarkably successful at invigorating what had become a moribund economy, and bringing substantial improvements in the living standards of most Vietnamese. Foreign investment in the country's industrial and service sectors has been a primary motor in this economic development process, bringing capital, skills, technology, and access to new foreign markets. However, the pace of economic reform in Vietnam appears to have slowed down since around 1996, and the Asian Crisis has impacted adversely on two essential elements of the country's economy: foreign investment inflows and external trade outflows.

Further, recent weather patterns — such as El Nino and La Nina — have not helped matters in the agricultural sector, which accounts for about 80 per cent of employment and remains the backbone of the economy. Such factors prompted the IMF to express concern at the economy's deteriorating performance in 1998. Quite clearly, the Vietnamese economy has entered a period of markedly slower growth, with sections of the country's macroeconomic profile giving valid cause for some concern. The domestic banking sector in particular is believed to be in poor shape, while the aggregate effects of poor domestic demand and low-quality output is leading to major inventory stockpiling at many state firms (and thereby further exacerbating the deflationary trend). The state sector is also looking fairly dishevelled these days as the potentially more lucrative assets are slowly hollowed out and shifted into the fledgeling private sector, along with some of the more capable employees. The formal conversion of state assets into private sector businesses, through the "equitization" programme has undoubtedly picked up pace in 1999 (after years of slothful progress), with over 220 former state firms now partially divested. However, the opacity of this state sector divestment process, and the continued lack of a supporting secondary market for share trading, is not making equitization a smooth exercise.

Probably underestimating the full impact of the regional economic downturn (as most Southeast Asian countries did), Vietnam's leadership has attempted to "tough out" the Asian Crisis, adopting a policy stance similar to that of China. In particular, the country's non-convertible currency — the dong — has been held broadly firm, not devalued in line with other currencies in the region. Crucially, Vietnam's business sector (both state and private) had limited access to foreign currency lending and did not become highly leveraged in U.S. dollar debt prior to the onset of the Asian Crisis. As a result, the country does not currently face the sort of massive private sector debt overhang that is troubling some other Southeast Asian countries (although Vietnam itself does have a chronic domestic debt problem, and a relatively substantial sovereign debt commitment). At the time of writing, it also appears that structural adjustment credits from both the World Bank and the IMF to Vietnam may resume in early 2000 (after a hiatus of several years), which could do much to buoy the fragile foreign exchange reserves and ameliorate the budget deficit.

In addition, GDP growth in Vietnam has not gone negative throughout the regional crisis period, although the official 1998 economic growth figure (4 per cent) was roughly half the average recorded in previous years, and the GDP growth figure for 1999 is likely to be much more disappointing. The economy is clearly cooling, with deflation on the cards, and — following Laos's lead — the government is reducing the working week from six to five days. A more expansionary monetary policy has also been enacted, although it has yet to show any signs of "kicking in" to the real economy. Vietnam needs a GDP growth rate in excess of 2 per cent if economic growth is not to be fully discounted by population growth of about the same rate. Even with the industry and service sectors registering zero growth, this more modest GDP growth rate can be attained with relative ease, as long as the agricultural sector is able to continue generating improved rates of productivity from what has generally been a woefully inefficient field of business. (Although state co-operatives in the rural sector were dismantled some years ago, permitting the return to family-based operations, there remains considerable potential for greater efficiency gains in the agricultural sector, particularly if state monopolies in the trading of agricultural products are removed.) The global softening in a spectrum of commodity prices has not been at all helpful to Vietnam in recent years, but a recent pick-up in prices of various commodities, and particularly crude oil, could bring welcome news for the year 2000 and beyond.

Rising unemployment in urban areas is one of several pressing reasons the industrial sector should not be allowed to fester. But there are two reasons why this poses a major challenge for Hanoi. The first is that a substantial proportion of the industrial sector in Vietnam is represented by loss-making state enterprises, and cumulatively restructuring them into something more akin to commercially oriented businesses (as opposed to thinly disguised social services) is proving to be a tricky exercise, due to a whole host of factors. The second reason is that much of the industrial growth recorded over the last decade has come from foreign-invested projects, of which far fewer start-ups have been in evidence since 1997. Prior to the onset of the Asian Crisis, Vietnam was sourcing about 70 per cent of its foreign investment from the surrounding East Asian region. There is hope in Hanoi that a general economic recovery in the surrounding region will therefore result in a return to pre-crisis foreign investment inflows. But this may also be a faint hope, at least in the short term. It will take some years before the corporate sectors in most neighbouring countries have the capacity, let alone the volition, to recommence investing in Vietnam. In addition, the opening of Vietnam's doors to foreign capital ignited a sense of business euphoria that cannot be easily replicated, particularly now that the realities of doing business in Vietnam are far better understood. What may also be difficult to replicate is the massive wave of foreign capital that flowed into emerging markets during the first half of the 1990s, on which Vietnam's own foreign investment inflows were able to surf. In the mean time, FDI inflows have been trending down since 1996 at roughly the same velocity that they trended up between 1988 and 1995. Hanoi's response has been to tinker with the business regime for foreign investors (the dual pricing system was abolished recently, at least officially), but the major disincentives — inadequate access to foreign exchange, an overvalued currency, red tape, procrastination, and corruption, to name but a few — remain doggedly entrenched.

Like Laos, Vietnam's leadership has yet to put forward a convincing or coherent strategy for overcoming the regional economic downturn and advancing the economy in the new millennium. This may stem in large part from a genuine lack of consensus on what is the best way to proceed. A return to command economy practices of pre-1986 is clearly not a viable option — although some hardliners are tempted by the notion — and yet the perils of free market-oriented policies have been put into sharp relief by the Asian Crisis. (Policy prescriptions by the major multilateral bodies have also proved to be somewhat "hit-and-miss", emboldening those in Hanoi who reject development models put forward by the IMF and the World Bank.) Hanoi's recent policy of "bulking up" state firms in strategic sectors into major conglomerates, modelled on the South Korean *chaebol*, has also been discredited by the Asian Crisis, although it remains unclear whether the leadership will now seek to unwind past efforts in this regard.

As a result, Vietnam continues to chart a course that is similar to that of neighbouring China, almost by default. Despite valid anxiety that such a policy has yet to provide an answer for some of the primary problems that face both China and Vietnam — such as the interrelated issues of state sector downsizing and domestic bad debt reduction — the leadership in Hanoi has not yet been able to conjure up an alternative. To be fair, the scope of economic policy options available to Vietnam is also constrained by Hanoi's adherence to a fixed ideological stance in the political sphere, as well as the realities of the current state structure (such as the relationship between state firms and line ministries). But Vietnam does not have the time to tackle these issues in a leisurely manner. For example, a commitment to comply with the ASEAN Free Trade Area (AFTA) agreement by the year 2006 means that Hanoi has just six years to take down some of the trade barriers which currently protect state firms from greater foreign competition.

Going forward, Vietnam is likely to register a more modest rate of economic growth than during the pre-crisis period. Policy-makers will be seeking to better mobilize domestic capital resources in order to compensate for the downturn in external resource inflows, as well as attempting to further improve the business environment for foreign investors. But this will not be plain sailing for the country, with various domestic and external factors having the potential to pose problems in the immediate years ahead. On the external front, Vietnam's economic fortunes will in large part be dependent on whether emerging markets regain their allure with foreign investors; whether the surrounding East Asian region is able to regain a sustained economic growth trajectory; and whether China's economy does not

TABLE 11
Vietnam: Selected Economic Indicators, 1995–2000F

	1995	1996	1997	1998	1999F	2000F
GDP growth rate (% change)	9.5	9.3	8.2	4.0	2.5	3.5
Agriculture (% change)	4.8	4.4	4.3	2.7	—	—
Industry (% change)	13.6	14.5	12.6	8.5	—	—
Services (% change)	9.8	8.8	7.1	1.4	—	—
Exports						
US$ millions	5,200	7,100	8,900	9,400	9,870	10,460
Growth rate (% change)	28.2	41.0	22.2	3.9	5.0	6.0
Imports						
US$ millions	7,500	11,100	11,200	11,400	11,860	12,600
Growth rate (% change)	43.8	38.9	−1.6	−2.3	4.0	6.5
Balance of payments (% of GDP)	−11.0	−10.3	-6.8	−4.1	−2.5	−3.5
Foreign investment inflows (US$ millions)	2,000	2,156	1,200	600	350	400
Inflation rate (CPI) (% change)	12.7	4.5	3.6	9.2	2.5	3.0
Money supply (% change)	22.6	22.7	26.1	22.0	19.0	20.0
External debt outstanding						
US$ millions	7,756	9,657	11,612	14,861	—	—
Debt service ratio (%)	12.2	11.0	11.4	13.4	14.0	14.5
Exchange rate (dong/US$ annual average)	11,037	11,032	11,683	13,297	14,000	15,000

F = Forecast.
SOURCES: Asian Development Bank; International Monetary Fund; *Financial Times*; Economist Intelligence Unit; author.

become derailed. On the domestic front, Vietnam's economy will need to counter the perils posed by a burdensome state sector (which is gradually being hollowed out); severe domestic debt problems and bank fragility; possible foreign exchange shortages; and rising urban unemployment. In a partial bid to prevent urban unemployment levels from increasing, through the migration of rural dwellers to the cities, Hanoi is likely to commit more resources to developing rural areas. This would concur with a wider post-crisis trend, which has seen the region's policy-makers devoting more attention to the rural areas, and would also dovetail with efforts in Vietnam's political sphere to prevent a repeat of recent rural disturbances. Another option to combat urban unemployment would be to give the private sector more freedom to manœuvre, but this notion does not sit comfortably with the more conservative elements in the leadership, and is not welcomed by powerful interests in the state sector and pertinent line ministries.

Extreme factors that might prompt an economic crisis for Vietnam in 2000–2001 are relatively few. Very inclement weather, or severe supply dislocations, that then have an adverse impact on agricultural output are always conceivable in the Indochina countries. Within the political arena, leadership manœuvring in anticipation of the 2001 Party Congress also has the potential to distort — or simply overwhelm — general economic policy-making, especially if certain ideological postures are adopted. An inability to service existing sovereign debt commitments due to a lack of foreign exchange might also have the potential to upset the economy, particularly if it caused foreign investors and multilateral lending agencies to revise down further their current perceptions of Vietnam. However, all these potential perils have been with Vietnam for quite some time, and the likelihood of them actually occurring has not increased substantially.

APPENDICES

TABLE A-1 **SELECTED ECONOMIC INDICATORS: BRUNEI DARUSSALAM**

Particulars	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1974 prices)														
Gross domestic product (Brunei $ millions)	3,535	3,440	3,508	3,547	3,509	3,605	3,751	3,709	3,728	3,795	3,911	4,050	4,215	4,257
GDP growth rate (%)	−1.5	−2.7	2.0	1.1	−1.1	2.7	4.0	−1.1	0.5	1.8	3.0	3.5	4.1	0.9
STRUCTURE OF PRODUCTION (share of GDP, per cent)														
Agriculture	1.2	1.4	1.4	1.3	1.2	1.2	1.1	1.0	1.9	1.9	1.8	1.8	1.9	2
Industry[a]	71.4	68.8	65.3	n.a.	n.a.	n.a.	n.a.	n.a.	9.3	9.7	9.5	9.9	10.3	10.8
Services	27.4	29.8	33.3	36.0	38.2	41.3	45.3	48.3	48.5	52.2	51.7	53.4	53.9	55.5
INTERNATIONAL TRANSACTIONS														
Exports, f.o.b. (US$ millions)	3,076	1,819	1,992	1,771	1,926	2,212	2,466	2,496	2,362	2,106	2,084	2,329	3,973[d]	3,162[d]
Imports, c.i.f. (US$ millions)	635	661	672	766	878	1,000	1,111	2,430	2,600	3,124	3,490	4,689	3,154	3,027
Exchange rate (average of period), currency/US$[b]	2.200	2.177	2.106	2.012	1.950	1.813	1.728	1.629	1.616	1.527	1.417	1.410	1.485	1.673
PRICES AND MONEY														
Consumer price index (1990 = 100)	92.7	94.3	95.6	96.7	98.0	100.0	101.6	102.9	107.3	109.9	116.5	119.4	121	120.2[e]
Inflation rate	n.a.	1.8	1.3	1.2	1.3	2.1	1.6	1.3	4.3	2.4	6.0	2.5	n.a.	n.a.
Money supply, M2 (Brunei $ millions)	3,621	3,126	4,446	4,163	4,178	4,519	4,696	4,913	5,445	7,599	8,020	11,104	7,466	7,487[e]
EMPLOYMENT														
Employment (thousands)[c]	32.5	30.0	33.7	43.9	19.9	53.6	54.4	63.1	67.9	80.1	76	n.a.	n.a.	n.a.

n.a. = Not available.
[a] Includes oil production (mining) as well as manufacturing, utilities, and construction.
[b] Brunei dollar = Singapore dollar.
[c] Refers to employment in the private sector only.
[d] Brunei dollars millions.
[e] Till end June.

SOURCES: Statistics Division, Economic Planning Unit, Ministry of Finance, *Brunei Darussalam Yearbook* (various issues); International Monetary Fund, *Direction of Trade Statistics Yearbook 1997*, Economist Intelligence Unit, *EIU Country Report: Malaysia and Brunei* (3rd quarter 1998); *IMF Staff Country Report*, no. 99/19 (April 1999).

TABLE A-2 **SELECTED ECONOMIC INDICATORS: CAMBODIA**

Particulars	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1989/1993 prices)											
BY EXPENDITURE (riel millions)											
Gross domestic product	232,773	240,909	243,704	262,193	280,600 ‖	6,084,463	6,323,184	6,744,091	7,240,639	7,302,053	7,396,090
Private consumption	217,340	213,470	218,839	222,598	232,700 ‖	5,991,191	6,149,177	6,464,308	6,781,887	6,546,574	6,623,340
Government consumption	12,496	18,476	17,625	19,417	26,700 ‖	305,988	466,516	379,559	430,789	431,014	389,740
Gross fixed capital formation	20,866	26,463	20,240	24,701	27,500 ‖	557,802	632,530	840,846	1,003,702	928,648	898,530
GDP growth rate (%)	9.8	3.5	1.2	7.6	7.0 ‖	4.1	3.9	6.7	6.5	–0.8	–1.2
STRUCTURE OF PRODUCTION (share of GDP, per cent)											
Agriculture and mining	63.4	53.3	56.2	50.2	48.1 ‖	43.6	44.5	48.3	43.3	43.9	42
Industry	12.7	14.4	10.6	11.7	12.8 ‖	12.6	13.5	13.4	16.6	19.6	20
Services	23.9	32.3	33.2	38.0	39.1 ‖	43.9	41.9	38.3	40.1	36.5	38
INTERNATIONAL TRANSACTIONS											
Balance of payments (US$ millions)											
Merchandise exports	44.8	79.2	85.8	212.5	264.5	283.0	489.8	855.6	643.6	736.0	705.4
Merchandise imports	169.3	176.0	163.5	245.0	443.4	471.0	744.4	1,187.0	1,017.8	1,064.0	1,092.20
Current account balance	–115.6	–89.2	–49.6	–32.5	–93.0	–103.9	–156.6	–185.7	–185.0	–210.3	218.8
Foreign exchange reserves	n.a.	n.a.	n.a.	n.a.	n.a.	8.5	102.6	176.8	251.9	286.7	314.5
Exchange rate (average of period), currency/US$	109	167	418	703	1,267	2,689	2,545	2,451	2,624	2,946	3,744.40
PRICES AND MONEY											
Consumer price index (3/89 = 100)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	104.2	105.3	115.9	119.6	n.a.
Inflation rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	10.1	3.2	n.a.
Money supply, M2 (riel millions)	10,618	18,030	61,495	79,023	248,137	333,469	449,927	649,105	911,618	1,062,871	1,230,070
INTEREST RATES											
Deposit rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.7	8.8	8.0	7.8
EMPLOYMENT											
Employment (thousands)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

‖ Break in series.

Sources: Asian Development Bank, ERDC (http://internotes.asiandevbank.org/notes/edr0004p/index.htm); Asian Development Bank, *Asian Development Outlook 1998*; International Monetary Fund, *International Financial Statistics* (September 1998); Economist Intelligence Unit, *EIU Country Report: Cambodia and Laos* (3rd quarter 1998).

TABLE A-3 **SELECTED ECONOMIC INDICATORS: INDONESIA**

Particulars	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1983/1993 prices)													
BY EXPENDITURE (rupiah billions)													
Gross domestic product	90,081	94,518 ‖	221,407	241,521	263,262	286,765	307,474	329,776	354,641	383,792	413,798	433,246	376,052
Private consumption	50,530	5,200 ‖	123,144	132,330	155,094	167,455	172,640	192,958	208,062	234,245	257,016	277,116	267,913
Government consumption	9,241	9,226 ‖	23,080	25,458	26,689	28,094	29,702	29,757	30,443	30,851	31,681	31,701	26,828
Gross fixed capital formation	21,422	22,597 ‖	52,116	59,891	69,519	78,488	81,302	86,667	98,589	112,386	128,699	139,726	90,071
GDP growth rate (%)	5.9	4.9	5.8 ‖	9.1	9.0	8.9	7.2	7.3	7.5	8.2	7.8	4.7	–13.2
STRUCTURE OF PRODUCTION (share of GDP, per cent)													
Agriculture and mining	35.4	37.2 ‖	34.6	34.4	31.6	31.0	29.5	27.4	26.1	26.0	25.3	24.9	32.9
Industry	22.5	22.4 ‖	25.1	25.6	27.0	27.6	28.8	30.1	31.9	33.0	34.8	35.5	32.0
Services	42.1	40.4 ‖	40.3	40.0	41.5	41.3	41.7	42.4	42.1	41.1	40.3	40.4	35.1
INTERNATIONAL TRANSACTIONS													
Balance of payments (US$ millions)													
Merchandise exports	14,396	17,206	19,509	22,974	26,807	29,635	33,796	36,607	40,223	47,454	50,188	56,297	50,371
Merchandise imports	11,938	12,532	13,831	16,310	21,455	24,834	26,774	28,376	32,322	40,921	44,240	46,223	31,942
Current account balance	–3,911	–2,098	–1,397	–1,108	–2,988	–4,260	–2,780	–2,106	–2,792	–6,431	–7,663	–4,816	3,972
Foreign exchange reserves	3,919	5,483	4,948	5,357	7,353	9,151	10,181	10,988	11,820	13,306	17,820	16,088	22,401
Exchange rate (average of period), currency/US$	1,293.6	1,649.3	1,688.5	1,771.0	1,848.6	1,954.2	2,034.3	2,089.4	2,164.2	2,252.8	2,347.3	2,951.8	9,874.6
PRICES AND MONEY													
Consumer price index (4/88 – 3/89 = 100)	42.2	44.7	48.8	52.7	56.1	60.5	66.2	71.1	78.0	84.7	92.7	100.0	106.2
Inflation rate	4.7	5.8	9.3	8.0	6.4	7.8	9.4	7.5	9.7	8.5	9.4	7.9	6.2
Money supply, M2 (rupiah billions)	27,661	33,885	41,998	58,705	84,630	99,059	119,053	145,202	174,512	222,638	288,632	355,643	577.381
INTEREST RATES													
Deposit rate	17	15	18	18	19	17	23	20	15	12	16	20	39
EMPLOYMENT													
Employment (thousands)	68,338	70,402	72,518	73,425	75,851	76,423	78,518	79,200	82,038	80,110	85,702	87,050	87,672
Unemployment rate	2.6	2.6	2.8	2.8	2.5	2.6	2.7	2.8	4.4	7.2	4.9	4.7	5.5

‖ Break in series.

SOURCES: Asian Development Bank, ERDC (http://internotes.asiandevbank.org/notes/edr0004p/index.htm); CEIC Data, *DRI Asia Database*; International Monetary Fund, *International Financial Statistics* (September 1998).

TABLE A-4 **SELECTED ECONOMIC INDICATORS: LAO PEOPLE'S DEMOCRATIC REPUBLIC**

Particulars	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1990 prices)													
BY EXPENDITURE (kip millions)													
Gross domestic product	516,706	511,433	501,842	566,042	607,317	627,974	672.163	707,101	763,990	814,816	871,816	939,187	992,187
GDP growth rate (%)	4.9	−1.0	−1.9	12.8	7.3	3.4	7.0	5.2	8.0	6.7	7.0	7.7	5.6
STRUCTURE OF PRODUCTION (share of GDP, per cent)													
Agriculture and mining	56.6	57.4	60.6	61.1	61.4	58.3	59.2	57.7	57.3	55.0	53.1	52.5	53.5
Industry	17.7	13.8	11.7	12.7	14.4	16.7	16.8	17.6	17.8	18.7	20.5	20.9	21.7
Services	25.8	28.9	27.7	26.2	24.3	25.0	23.9	24.7	24.9	26.3	26.4	26.6	24.6
INTERNATIONAL TRANSACTIONS													
Balance of payments (US$ millions)													
Merchandise exports	55.0	64.3	57.9	63.3	78.7	96.6	132.6	240.6	300.5	310.9	322.8	318.3	342.1
Merchandise imports	185.7	216.2	149.4	193.8	185.4	170	269.6	432	564.2	589	643.7	601.3	506.8
Current account balance	−90.0	−119.3	−74.9	−118.7	−83.5	20.0	−45.1	−39.2	−98.0	−125.6	−220.2	−305.5	−104.6
Foreign exchange reserves	31.8	20.6	16.1	1.4	1.8	28.2	39.5	60.3	50.0	78.0	159.2	99.6	106.13
Exchange rate (average of period), currency/US$	95.0	187.5	400.4	591.5	707.7	702.1	716.1	716.2	717.7	804.7	927.1	1,256.7	3,298.33
PRICES AND MONEY													
Consumer price index (1990 = 100)	n.a.	n.a.	45.7	73.7	100.0	113.4	124.6	132.4	141.4	169.1	191.1	223.6	n.a.
Inflation rate	n.a.	n.a.	n.a.	61.3	35.6	13.4	9.9	6.3	6.7	19.6	13.0	17.0	n.a.
Money supply, M2 (kip millions)	3,876	15,842	21,715	41,114	44,339	51,315	76,462	125,848	165,988	193,268	244,928	403,756	865,932
INTEREST RATES													
Deposit rate	n.a.	n.a.	n.a.	30.0	30.0	23.5	15.0	13.3	12.0	14.0	16.0	n.a.	17.7
EMPLOYMENT													
Employment (thousands)	1,705	1,833	1,874	1,912	1,956	2,026	2,100	2,993	n.a.	n.a.	n.a.	n.a.	n.a.

SOURCES: Asian Development Bank, ERDC (http://internotes.asiandevbank.org/notes/edr0004p/index.htm); International Monetary Fund, *International Financial Statistics* (September 1998).

TABLE A-5 **SELECTED ECONOMIC INDICATORS: MALAYSIA**

Particulars	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1978 prices)													
BY EXPENDITURE (ringgit millions)													
Gross domestic product	57,859	60,863	66,303	72,409	79,329	86,149	92,866	100,617	109,976	120,272	130,621	140,684	131,258
Private consumption	26,369	26,857	31,189	35,128	39,728	43,506	44,804	46,866	51,516	56,288	59,668	62,490	54,757
Government consumption	9,536	9,676	10,149	10,914	11,512	12,943	13,464	14,903	16,372	17,568	17,818	18,763	18,114
Gross fixed capital formation	14,601	13,954	16,084	21,212	25,872	31,429	34,574	39,689	46,463	55,715	61,160	66,354	36,561
GDP growth rate (%)	1.3	5.2	8.9	9.2	9.6	8.6	7.8	8.4	9.3	9.4	8.6	7.7	–6.7
STRUCTURE OF PRODUCTION (share of GDP,[a] per cent)													
Agriculture and mining	32.35	32.24	31.27	30.59	28.44	26.43	25.42	24.1	22.08	20.96	19.88	18.94	19.0
Industry	26.78	27.8	29.4	30.61	32.4	33.95	34.9	36.3	38.05	39.92	41.32	43.08	41.1
Services	40.88	39.96	39.32	38.79	39.16	39.62	39.68	39.61	39.87	39.12	38.81	37.98	40.0
INTERNATIONAL TRANSACTIONS													
Balance of payments (US$ millions)													
Merchandise exports	13,545.29	17,758.47	20,857.43	24,643.27	28,641.47	33,536.78	39,615.4	45,989.76	56,614.51	71,563.82	76,860.21	77,390.83	n.a.
Merchandise imports	10,300.16	11,921.56	15,309.91	20,259.14	26,018.71	33,009.84	36,235.67	42,792.16	54,914.24	71,525.14	72,850.31	73,739.05	n.a.
Current account balance	–122.4	2,636.8	1,810.09	257.78	–918.13	–4,234.46	–2,207.09	–3,079.11	–5,630.72	–8,630.75	–4,462.24	–5,623.59	n.a.
Foreign exchange reserves	6,419.35	7,747.58	7,004.52	8,007.96	10,000.3	11,079.87	18,536.91	29,709.03	26,000.72	25,435.77	27,836.55	21,020.2	24,728
Exchange rate (average of period), currency/US$	2.582	2.519	2.618	2.708	2.704	2.750	2.547	2.574	2.623	2.508	2.516	2.813	3,923
PRICES AND MONEY													
Consumer price index (1994 = 100)	78.1	78.4	80.4	82.7	85.2	88.9	93.1	96.4	100.0	103.4	107.0	109.9	115.7
Inflation rate	0.7	0.3	2.5	2.8	3.1	4.3	4.8	3.6	3.7	3.5	3.5	2.7	5.3
Money supply, M2 (ringgit millions)	53,767	56,459	60,360	74,067	83,903	96,093	114,481	139,800	160,366	198,873	238,209	292,217	296,472
INTEREST RATES													
Deposit rate	7.17	4.00	3.58	4.69	6.05	7.31	8.00	6.97	5.10	6.19	7.14	7.86	8.94
EMPLOYMENT													
Employment (thousands)	5,707	5,881	6,088	6,351	6,686	6,891	7,096	7,396	7,603	7,915	8,161	8,564	8,600
Unemployment rate	8.3	8.2	8.1	7.1	5.1	4.3	3.7	3.0	3.0	2.8	2.5	2.5	3.2

[a] Based on constant price data.

Sources: Asian Development Bank, ERDC (http://internotes.asiandevbank.org/notes/edr0004p/index.htm); CEIC Data, *DRI Asia Database*.

TABLE A-6 **SELECTED ECONOMIC INDICATORS: MYANMAR**

Particulars	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1985/86 prices)													
BY EXPENDITURE (kyats millions)													
Gross domestic product	55,397	53,178	47,141	48,883	50,260	49,933	54,757	58,064	62,406	66,710	71,042	74,329	78,937
Consumption	49,053	47,629	41,065	41,826	42,199	40,315	43,543	46,795	47,955	51,020	52,370	53,177	56,780
Gross fixed capital formation	8,272	7,556	5,399	6,453	8,852	9,188	9,250	10,234	12,640	16,201	19,887	21,196	21,238
GDP growth rate (%)	−1.1	−4.0	−11.4	3.7	2.8	−0.7	9.7	6.0	7.5	6.9	6.5	4.6	6.2
STRUCTURE OF PRODUCTION (share of GDP, per cent)													
Agriculture and mining	51.0	56.0	58.0	57.8	57.9	59.4	61.0	63.5	63.5	60.6	59.3	59.2	45
Industry	11.4	9.6	9.0	10.2	9.9	9.2	8.9	8.5	8.1	9.3	9.5	9.8	15.3
Services	37.6	34.4	32.9	32.0	32.2	31.3	30.0	28.1	28.4	30.1	31.2	31.0	39.6
INTERNATIONAL TRANSACTIONS													
Balance of payments (US$ millions)													
Merchandise exports	288	218	147	215	417	559	724	689	921	880	875	960	n.a.
Merchandise imports	304	268	179	194	668	1,068	1,058	1,302	1,488	1,811	1,894	2,145	n.a.
Current account balance	−294	−349	−176	−67	−345	−341	−213	−196	−50	−404	−473	−815	n.a.
Foreign exchange reserves	33	27	77	263	312	258	280	309	422	561	229	250	315
Exchange rate (average of period), currency/US$	7.04	6.11	6.41	6.49	6.08	6.01	6.24	6.24	5.90	5.78	5.98	6.36	6.34
PRICES AND MONEY													
Consumer price index (1985 = 100)	100	123.9	144.8	184.2	216.6	286.5	349.3	460.5	571.5	715.4	831.9	1,078.9	n.a.
Inflation rate	n.a.	23.9	16.9	27.2	17.6	32.3	21.9	31.8	24.1	25.2	16.3	29.7	n.a.
Money supply, M2 (kyat millions)	23,819	18,126	23,515	30,942	43,739	57,346	77,773	98,618	132,060	185,530	257,666	322,950	433,540
INTEREST RATES													
Deposit rate	1.5	1.5	11.5	1.5	9.0	9.0	9.0	9.0	9.0	9.8	12.5	12.5	12.5
EMPLOYMENT													
Employment (thousands)	15,410	15,400	15,140	15,220	15,740	16,010	16,470	16,910	17,320	17,590	17,980	17,964.0	n.a.
Unemployment rate	1.7	1.4	n.a.	n.a.	4.2	4.2	4.2	4.2	4.2	4.2	n.a.	n.a.	n.a.

SOURCES: Asian Development Bank, ERDC (http://internotes.asiandevbank.org/notes/edr0004p/index.htm); Economist Intelligence Unit, *EIU Country Report: Myanmar* (3rd quarter 1998); International Monetary Fund, *International Financial Statistics* (September 1998); Union of Myanmar, *Review* (various issues).

TABLE A-7 SELECTED ECONOMIC INDICATORS: PHILIPPINES

Particulars	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1985 prices)													
BY EXPENDITURE (pesos millions)													
Gross domestic product	591,423	616,923	658,581	699,448	720,690	716,522	718,941	734,156	766,368	802,224	849,121	892,860	888,075
Private consumption	434,815	452,386	480,562	504,619	531,772	543,788	561,509	578,589	600,106	622,985	651,790	684,316	708,316
Government consumption	43,669	45,792	49,943	53,434	57,042	55,826	55,337	58,746	62,343	65,810	68,527	69,599	70,166
Gross fixed capital formation	90,301	108,085	123,960	149,310	172,951	143,047	154,252	166,397	180,797	187,131	210,440	235,125	194,817
GDP growth rate (%)	3.4	4.3	6.8	6.2	3.0	–0.6	0.3	2.1	4.4	4.7	5.9	5.2	–0.5
STRUCTURE OF PRODUCTION (share of GDP, per cent)													
Agriculture and mining	26.3	26.1	24.9	24.4	23.5	22.4	23.0	22.7	23.0	22.5	21.4	19.4	17.6
Industry	32.3	32.3	33.2	33.2	32.9	32.6	31.6	31.6	31.6	31.2	31.3	31.5	30.8
Services	41.5	41.6	41.9	42.4	43.6	45.0	45.3	45.7	45.5	46.3	47.3	49.2	51.5
INTERNATIONAL TRANSACTIONS													
Balance of payments (US$ millions)													
Merchandise exports	4,842	5,720	7,074	7,821	8,186	8,840	9,824	11,375	13,483	17,447	20,543	25,228	29,496
Merchandise imports	5,044	6,737	8,159	10,419	12,206	12,051	14,519	17,597	21,333	26,391	31,885	36,355	29,524
Current account balance	954	–444	–390	–1,456	–2,567	–869	–858	–3,016	–2,950	–3,297	–3,953	–4,351	1,287
Foreign exchange reserves	2,476	1,970	2,061	2,374	2,281	4,389	5,102	5,952	6,460	7,786	11,652	11,732	10,205
Exchange rate (average of period), currency/US$	20.386	20.567	21.095	21.737	24.302	27.479	25.513	27.120	26.417	25.714	26.216	29.471	40.893
PRICES AND MONEY													
Consumer price index (1988 = 100)	89.1	91.8	100.0	112.2	128.1	152.0	165.6	178.2	194.3	210.0	227.7	239.1	260.6
Inflation rate	–0.4	3.0	8.9	12.2	14.2	18.7	8.9	7.6	9.1	8.1	8.4	5.0	9.0
Money supply, M2 (pesos millions)	136,266	155,626	195,939	250,166	297,307	344,057	381,873	475,716	603,004	755,181	874,763	1,053,949	1,138,438
INTEREST RATES													
Deposit rate	10.79	8.40	11.97	13.85	16.30	15.47	13.34	10.80	10.18	9.56	10.34	11.27	13.73
EMPLOYMENT													
Employment (thousands)	18,998	20,422	21,386	21,996	22,330	23,039	23,931	24,558	25,162	26,010	27,389	27,804	28,801
Unemployment rate	11.6	10.7	9.3	9.3	8.4	10.6	9.6	9.4	9.5	9.4	8.4	8.9	10.2

SOURCES: Asian Development Bank, ERDC (http://internotes.asiandevbank.org/notes/edr0004p/index.htm); CEIC Data, *DRI Asia Database*.

TABLE A-8 SELECTED ECONOMIC INDICATORS: SINGAPORE

Particulars	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1990 prices)													
BY EXPENDITURE (S$ millions)													
Gross domestic product	45,386	49,800	55,594	60,945	66,414	71,139	75,811	85,478	95,209	102,982	110,734	120,713	121,130
Private consumption	21,238	23,291	26,426	28,673	30,847	32,694	34,595	38,726	41,612	43,298	45,979	49,076	48,776
Government consumption	6,097	6,148	5,781	6,106	6,780	7,304	7,335	8,415	8,272	9,288	11,057	12,080	13,090
Gross fixed capital formation	16,382	16,283	16,900	19,569	21,578	24,469	27,347	30,159	33,070	36,771	45,328	49,964	47,598
GDP growth rate (%)	2.3	9.7	11.6	9.6	9.0	7.1	6.6	12.8	11.4	8.2	7.5	9.0	0.4
STRUCTURE OF PRODUCTION (share of GDP, per cent)													
Agriculture and mining	0.8	0.6	0.5	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Industry	36.9	36.6	37.1	35.6	34.7	35.5	34.8	33.9	33.2	34.0	34.6	34.2	35.2
Services	62.3	62.8	62.5	64.0	64.9	64.3	64.9	65.9	66.6	65.8	65.2	65.6	64.7
INTERNATIONAL TRANSACTIONS													
Balance of payments (US$ millions)													
Merchandise exports	21,336	27,464	38,987	43,713	52,114	58,410	63,959	75,107	94,982	115,477	122,522	122,109	110,379
Merchandise imports	23,402	29,910	40,338	45,594	55,813	60,947	67,867	80,046	96,030	116,785	123,042	123,879	95,702
Current account balance	319	−158	1,883	2,943	3,907	4,884	5,615	4,346	11,369	14,290	14,584	14,630	17,614
Foreign exchange reserves	12,932	14,455	16,536	19,796	26,770	32,302	40,387	48,191	55,757	68,675	76,417	80,561	74,441
Exchange rate (average of period), currency/US$	2.1774	2.1060	2.0124	1.9503	1.8125	1.7276	1.6290	1.6158	1.5274	1.4174	1.4100	1.4848	1.6736
PRICES AND MONEY													
Consumer price index (Oct 92–Sept 93 = 100)	86.0	86.4	87.8	89.8	92.9	96.1	98.3	100.5	103.7	105.4	106.9	109.0	108.7
Inflation rate	−1.4	0.5	1.5	2.4	3.5	3.4	2.3	2.3	3.1	1.7	1.4	2.0	−0.3
Money supply, M2 (S$ millions)	30,955	37,089	42,088	51,546	61,845	69,542	75,729	82,130	93,981	101,967	111,951	146,625	160,784
INTEREST RATES													
Deposit rate	4.06	3.09	3.05	3.68	5.11	4.97	3.09	2.54	3.26	3.77	3.67	3.72	4.66
EMPLOYMENT													
Employment (thousands)	1,214	1,267	1,332	1,394	1,469	1,524	1,576	1,592	1,649	1,702	1,748	1,830	1,931.8*
Unemployment rate	6.5	4.7	3.3	2.2	1.7	1.9	2.7	2.7	2.6	2.7	3.0	2.4	3.2

* Department of Statistics, *Yearbook of Statistics*.

SOURCE: CEIC Data, *DRI Asia Database*.

TABLE A-9 **SELECTED ECONOMIC INDICATORS: THAILAND**

Particulars	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1988 prices)													
BY EXPENDITURE (baht millions)													
Gross domestic product	1,257,177	1,376,847	1,559,804	1,749,952	1,945,372	2,111,862	2,285,572	2,473,937	2,695,054	2,933,168	3,095,041	3,081,800	2,833,700
Private consumption	748,896	813,783	885,008	984,184	1,110,935	1,171,164	1,273,031	1,380,385	1,490,769	1,600,931	1,702,316	1,705,700	1,467,600
Government consumption	150,208	150,637	156,710	160,822	171,944	182,589	194,276	204,210	220,938	232,813	254,954	253,100	239,300
Gross fixed capital formation	331,353	392,408	478,534	586,318	759,870	856,227	913,052	997,746	1,113,470	1,237,848	1,311,566	1,101,100	653,000
GDP growth rate (%)	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1
STRUCTURE OF PRODUCTION (share of GDP, per cent)													
Agriculture and mining	17.4	17.4	17.9	16.8	14.1	14.2	13.8	11.8	12.1	12.3	12.4	12.9	13.9
Industry	31.3	31.6	32.8	34.5	35.6	37	36.5	37.5	37.7	37.8	38.1	38.1	38.4
Services	51.3	50.9	49.2	48.7	50.3	48.7	49.6	50.7	50.2	49.9	49.5	48.9	47.7
INTERNATIONAL TRANSACTIONS													
Balance of payments (US$ millions)													
Merchandise exports	8,803	11,595	15,781	19,834	22,811	28,236	32,104	36,403	44,484	55,455	54,416	56,668	52,668
Merchandise imports	8,415	12,019	17,856	22,750	29,561	34,226	36,266	40,700	48,211	63,424	63,906	55,105	36,513
Current account balance	247	−366	−1,654	−2,498	−7,281	−7,573	−6,304	−6,365	−8,087	−13,556	−14,694	−2,917	14,230
Foreign exchange reserves	3,776	5,212	7,112	10,509	14,273	18,416	21,182	25,439	30,279	37,027	38,725	26,968	29,536
Exchange rate (average of period), currency/US$	26.357	25.786	25.344	25.752	25.636	25.566	25.450	25.370	25.200	24.965	25.394	31.482	41.585
PRICES AND MONEY													
Consumer price index (1990 = 100)	84.2	86.3	89.6	94.4	83.7	88.5	92.1	95.2	100.0	105.8	112.0	118.2	127.8
Inflation rate	1.8	2.5	3.9	5.4	−11.4	5.7	4.1	3.3	5.1	5.8	5.8	5.6	8.1
Money supply, M2 (baht millions)	672,773	808,584	956,126	1,207,097	1,529,116	1,832,378	2,117,795	2,507,099	2,829,383	3,310,558	3,726,653	4,339,345	4,753,361
INTEREST RATES													
Deposit rate	8.21	6.75	7.33	9.50	12.29	13.67	8.88	8.63	8.56	11.75	10.58	10.52	10.65
EMPLOYMENT													
Employment (thousands)	25,808	26,647	28,097	28,418	28,650	28,986	30,620	30,452	29,906	30,877	31,166	31,714	30,775
Unemployment rate	5.6	5.9	4.3	3.6	3.4	2.1	2.8	2.6	2.6	1.7	1.5	1.5	4.0

SOURCES: Asian Development Bank, ERDC (http://internotes.asiandevbank.org/notes/edr0004p/index.htm); CEIC Data, *DRI Asia Database*; International Monetary Fund, *International Financial Statistics* (September 1998).

TABLE A-10 **SELECTED ECONOMIC INDICATORS: VIETNAM**

Particulars	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
NATIONAL ACCOUNTS (at constant 1989 prices)													
BY EXPENDITURE (dong billions)													
Gross domestic product	23,820	24,748	25,929	28,083	29,526	31,286	33,991	36,735	39,982	43,797	47,888	52,198	55,225
Private consumption[a]	n.a.	n.a.	n.a.	n.a.	35,559	62,755	88,943	106,440	127,043	180,522[b]	214,074[b]	236,197[b]	289,661[b,a]
Government consumption[a]	n.a.	n.a.	n.a.	n.a.	5,177	6,204	6,371	10,279	14,132				
Gross fixed capital formation[a]	n.a.	n.a.	n.a.	n.a.	5,272	11,506	19,498	34,020	43,375	60,488	72,117	85,844	96,418[a]
GDP growth rate (%)	3.4	3.9	4.8	8.3	5.1	6.0	8.6	8.1	8.8	9.5	9.3	9.0	5.8
STRUCTURE OF PRODUCTION (share of GDP, per cent)													
Agriculture	50.7	49.2	48.5	50.4	49.8	40.5	33.9	29.9	28.7	28.4	27.2	26.2	20.1
Industry[c]	31.5	32.9	33.7	32.0	32.3	23.8	27.3	28.9	29.7	30.0	30.7	31.2	34.0
Services	17.8	17.9	17.8	17.6	17.9	35.7	38.8	41.2	41.7	41.7	42.1	42.6	45.8
INTERNATIONAL TRANSACTIONS													
Balance of payments (US$ millions)													
Merchandise exports	785	861	733	1,320	1,731	2,042	2,475	2,985	4,054	5,198	7,330	8,155	9,356
Merchandise imports	2,155	2,191	1,412	1,670	1,772	2,105	2,535	3,532	5,244	7,543	10,480	10,313	11,390
Current account balance	–1,423	–1,360	–747	–587	–259	–133	–8	–767	–1,166	–1,868	–2,418	–1,635	–1,316
Exchange rate (average of period), currency/US$	250	1,000	4,500	4,000	5,200	9,750	11,181	10,641	10,978	11,037	11,032	11,500	13,306
PRICES AND MONEY													
Consumer price index (1990 = 100)	1.7	7.9	37.6	73.5	100.0	181.8	250.4	271.1	296.8	347.0	366.7	378.1	n.a.
Inflation rate	n.a.	360.4	373.1	95.8	36.0	81.8	37.7	8.3	9.5	16.9	5.7	3.1	8.7
Money supply, M2 (dong billions)	112	471	2,569	7,419	11,358	20,301	27,144	32,288	43,006	52,710	64,678	n.a.	n.a.
INTEREST RATES													
Deposit rate	8.9	10.8	19.2	42.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EMPLOYMENT													
Employment (thousands)	27,399	27,968	28,122	28,940	30,295	30,974	31,819	32,718	33,700	34,600	35,800	37,000	38,800

n.a. = Not available.
[a] At current prices.
[b] Total consumption.
[c] Includes mining as well as manufacturing, utilities, and construction.

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