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December 2013
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Prepared for a special issue of the Malaysian Journal of Economic Studies in honour of the late Dr Mahani Zainal Abidin.

Abstract:

The 10 states of Southeast Asia have combined to form the developing world's most successful and durable regional grouping, the Association of Southeast Asian Nations, ASEAN. Economic integration among them is high and increasing. The ambitious ASEAN Economic Community is scheduled to take effect from December 2015, and should further accelerate this integration. But the socio-economic and institutional disparities among them are also very large. This paper therefore asks the question, does it make sense to contemplate a 'Southeast Asian development model'? Given this diversity, such a model obviously does not yet exist. But over time, these countries are converging with respect to their openness, their macroeconomic management and some aspects of their social policy. The poorer countries are generally growing faster than the richer ones, suggesting gradual convergence. There are also important spillover and demonstration effects evident from the region's leaders to its followers. Whether these developments will lead to the adoption of some sort of coherent regional development strategies remains to be seen.

Key words: development models, Southeast Asia, regional economic integration.

JEL classification: F55, H11, O21, O53

(1) Introduction

Now into its 47th year, the Association of Southeast Asian Nations, ASEAN, is the most durable and effective regional economic and political grouping in the developing world. Driven mainly by the introduction in 1992 of the ASEAN Free Trade Area, AFTA, the process of regional economic integration is likely to accelerate still further from late 2015 as the ASEAN Economic Community (AEC) protocols take effect (Severino and Menon, 2013). This raises the

· I gratefully acknowledge the research assistance of Michael Cabalfin in the preparation of this paper. I also thank seminar participants at the Australian National University, the Economic Society of Singapore and the University of Wollongong for helpful comments on seminar presentations as this paper was being written.

question, does it make sense to contemplate the existence of a 'Southeast Asian development model'? This is the question I pose in this essay in honor of the late Dr Mahani Zainal Abidin who, although she never wrote directly on this subject matter, focused on these sorts of 'big picture' issues in her busy and productive life as an academic, policy advisor, public intellectual and mentor.

I use the term 'model' in a broad sense, as stylized facts that refer to a development strategy or an underlying economic philosophy that guides economic policy-making. There are numerous examples of models of this genre. There was the 'Soviet model', of central planning, agricultural collectivization, and heavy industry. The 'Maoist model' emphasized a revolutionary approach to economic development in a low-income economy. There is a 'German model', or at least philosophy, that incorporates a strong aversion to inflation. The Scandinavian approach to social policy emphasizes large governments and comprehensive welfare entitlements. The 1980s strategies of President Reagan and Prime Minister Thatcher sought to roll back the state through privatization, deregulation and smaller governments. An earlier Latin American model characterized these economies as poor macroeconomic managers with the resultant boom and bust economic growth. For its first four decades as an independent state, successive Indian governments adopted ever more dirigiste approaches to economic governance. There is also the 'Australian model' of economic policy-making, premised on a small open economy with a large natural resource sector. These are the sorts of templates I use in addressing the question posed in this essay.

At first sight, the question may appear improbable. How could 10 nations characterized by such diversity ever adopt a common development model? The richest of them, Singapore, has a per capita income about 50 times that of the poor mainland states. The most populous, Indonesia, has about 40 times the population of Singapore and Laos (and even more than the micro state of Brunei, and also Timor Leste, likely to join ASEAN in the near future). The business cycles and economic drivers of the 10 nations vary greatly. Their colonial and post-independence histories were also very different. In the 1960s, Southeast Asia was seen as a 'region in revolt', in the words of one widely read account, with the non-communist states seen as dominoes, vulnerable to the downward thrust of communist China and to the 'Beijing-Pyongyang-Hanoi-Phnom Penh-Jakarta axis'. In fact, there were active hostilities in the region, in addition to the Indo China war. Malaysia and Singapore split in 1965 after a brief union, while Indonesia threatened konfrontasi against the newly formed state of Malaysia in the mid 1960s. The four poor mainland states chose to close off from the global economy, until very recently in the case of Myanmar, and for a decade and a half from the mid 1970s for the other three. For its first two decades, the original five-nation ASEAN was an avowedly anti-communist grouping strongly opposed to the communist states on its doorstep.

The literature on this topic is also sparse. Perhaps the leading academic analyst of East Asian development over the past half century, Harvard's Dwight Perkins (2013, p. 201), concludes that:

> "… no single model describes accurately what the 10 most successful economies in [East Asia] did to achieve this transformation. In most of the countries … more than one model or approach to development was tried as conditions within as well as between the countries changed. There were common themes, however, and the countries that started the transformation later learned from those that went ahead."

Southeast Asia's most eminent economist, Hla Myint (1967), characterized the region as consisting of 'outward-looking' and 'inward-looking' economies, with only Singapore, Malaysia and Thailand consistently in the former grouping. In fact, this country grouping has relevance beyond just commercial policy. Not without coincidence, these three have been better macroeconomic managers and they have generally experienced high growth for longer periods. One of the few authors to examine specifically a country development model is Huff (1995) on Singapore. He drew attention to the economy's extreme international orientation based on manufacturing and service exports, premised on extensive government intervention and planning, including significant direct enterprise ownership through the holding company Temasek, though not central planning. Markets were the central tool for allocating resources but, Huff maintained, there has been considerable intervention to guide these market outcomes, in the labour market, urban planning and congestion, and capital markets. Contrary to a conventional neo-classical interpretation of the country's record, governments have been highly interventionist in these and other areas.[1]

The approach adopted in this paper is two-fold. The first is to enquire whether the Southeast Asian economies are in some senses converging with respect to development policies, strategies and outcomes. Second, to the extent that there is such convergence, is there any causality at work that derives from common geographic location? For example, Malaysia and Chile evidently share some common features: they are small, open, resource-rich economies with high levels of inequality, and with several decades of good macroeconomic management. Yet these common features clearly do not derive from geographic proximity. The relevant question is whether in any

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[1] An important contribution to this debate was Linda Lim's (1983) paper on the 'myth of the free market economy' in Singapore. Lim drew attention to the government's extensive, albeit generally market-conforming, interventions.
Apposite also are the remarks on central planning of the country's principal economic architect, Dr Goh Keng Swee:

> "Actually, when we won the first elections in 1959, we had no plans at all. We produced a formal document called the 'First Four Year Plan' in 1960, only because the World Bank wanted a plan. We cooked it up during a long weekend. I have little confidence in economic planning." (cited in Toh and Low, 1988, p. 23)

sense converging policy could be attributed to economic integration through ASEAN, and perhaps also through demonstration effects, of the late reformers emulating the strategies of the early Southeast Asian success stories, particularly the three fast-growers.

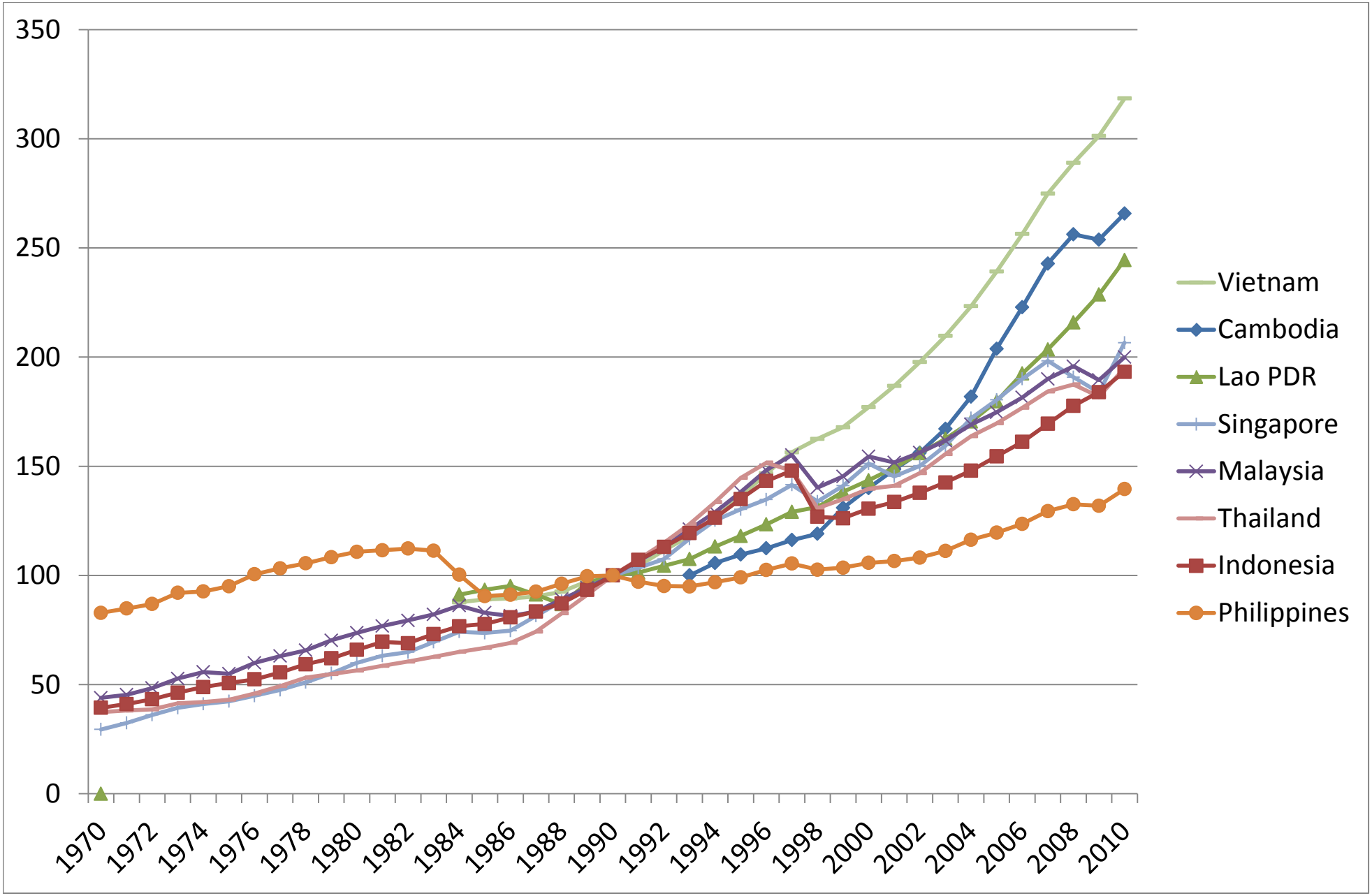
Our organization is as follows. In section 2 we examine the growth record, to ascertain whether there are any broad similarities in these countries' economic dynamics. Section 3 looks at the record of macroeconomic management, while section 4 investigates commercial policy, both global and regional in the context of regional ASEAN initiatives. In section 5 we consider institutional and governance quality, while section 6 surveys trends in social indicators. We sum up our major arguments in section 7.

We focus primarily on eight of the countries, excluding Brunei because it is so small and atypical, and Myanmar because of the poor quality of its statistics. For clarity of presentation, some of the graphical series exclude Singapore owing to that country's unusual features, for example its extremely high trade orientation. The topic is vast, embracing eight economies and several outcome and policy variables, and so a 'broad brush' approach is adopted without the necessary country nuances and caveats that a more detailed study would permit. That longer study is in preparation.

(2) Growth

We first examine the growth record, to get a sense of whether there is any sort of synchronized growth pattern discernible. The national accounts of the three Indo China economies are reliable only from the early 1990s. The resultant 20-year time period is therefore too short to observe long-run growth patterns.

Basing the countries' per capita income at 1990, the differences in growth trajectories are immediately apparent (Figure 1). Three general observations can be made. First, the three Indo China latecomers, led by Vietnam, have actually grown the fastest. This is not surprising, as they commenced growth at extremely low levels of per capita income, and were less affected by the Asian financial crisis (AFC). Second, the Philippines remains an outlier (along with Myanmar if reliable national accounts statistics were available), both before and after 1990. In fact, following its deep economic crisis of the mid 1980s, it took 20 years for its per capita income to recover to levels of the early 1980s. By contrast, for Indonesia, the most deeply affected in the AFC, it took just seven years to get back to 1997 levels. Third, apart from the Philippines, the growth dynamics of the original ASEAN Five have been broadly similar over this period. Three of them experienced deep contractions in 1998; even Singapore's growth fell sharply. Historically, of course, Singapore grew more quickly, but by the 1990s it was reaching global per capita income frontiers, and therefore the catch-up phase of hyper-growth was coming to an end.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Vietnam
Cambodia
Lao PDR
Singapore
Malaysia
Thailand
Indonesia
Philippines

Figure 1: GDP per capita Southeast Asian 9, 1990=100
(constant 2000 US$)
(see separate file)

Their economic performance can also be reviewed by comparing trends in their per capita income with that of the high-income 'frontier' economies, proxied here by the United States (Figure 2). The first series is dominated by Brunei's rise and fall during the 1970s oil boom period and by Singapore's ascension, so we exclude these two special cases and focus on the series in Figure 2B. The general pattern is similar, that is, from very low incomes, and with the exception of the Philippines, these economies are modestly converging, but at a speed that suggests it will be decades until they catch up to the high-income club. Conclusions about possible convergences need to be based on long-run trends, and occasional periods of economic volatility are not relevant. This includes both the declining relative incomes during the AFC, when the US continued to grow, and the global economic recession (GER) of 2008-09 when, except for the very outward-oriented economies, the region was less affected than the US, and hence relative incomes grew more quickly.

Figure 2A: Southeast Asian GDP per capita relative to US, 1960-2011

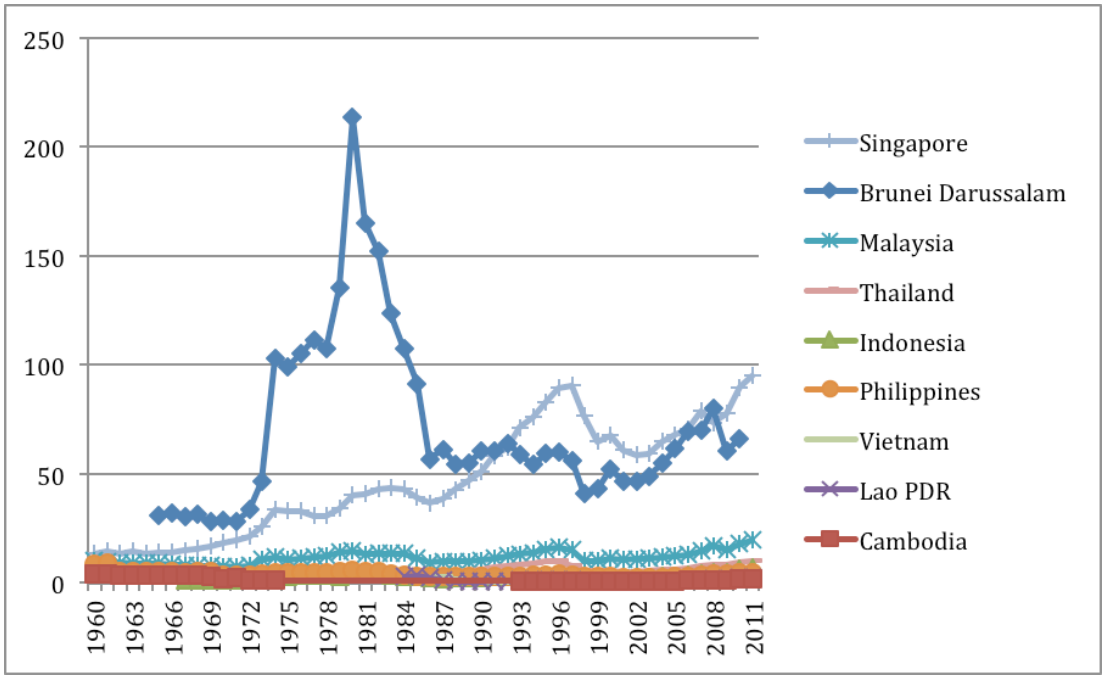
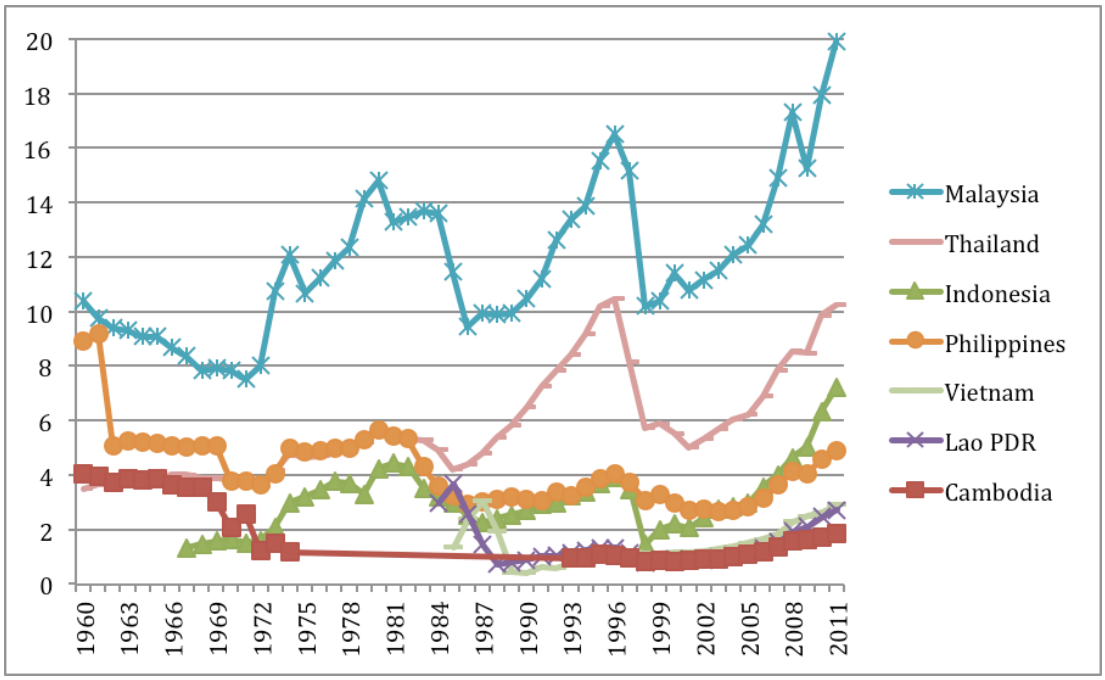


Figure 2B: Southeast Asian GDP per capita relative to US, 1960-2011
(excluding Singapore and Brunei)



These diverging growth rates are unsurprising. Even if policy settings were harmonized, which as we show below they are not, one would not expect annual growth rates to be highly correlated, for at least four sets of reasons. First, the experience with major departures from trend growth rates, principally economic crises, has varied enormously, reflecting both the differing responses to common exogenous shocks, and the presence of home-grown crises. For example, the Philippines had a deep economic crisis in the mid 1980s, almost entirely domestic in origins, while its original ASEAN Five neighbours prospered. During the AFC of 1997-98, Indonesia, Malaysia and Thailand experienced deep but short-lived contractions, while the rest of the region was much less adversely affected. Similarly, the impacts of the GER were varied. Trade-dependent Singapore and Malaysia (and also Cambodia) fell into recession, while most other economies continued to grow.

Second, commodity price fluctuations have different effects within the region. The region's energy exporters, Indonesia and Malaysia (and also Brunei) benefit from high energy prices, while for the other countries they result in declining incomes. (As Table 1 below reveals, the highest bilateral growth correlation is between these two net energy exporters, Indonesia and Malaysia; both were also affected by the AFC.) Related, the growth of China has diverse effects within the region. Third, a range of other country-specific factors is at work. Some countries are highly exposed to the global electronics cycle, especially Malaysia and Singapore. For the Philippines, remittances are fast becoming its principal connection to the global economy. Localized political disturbances are also a factor, such as Cambodia and Indonesia in 1998 and the Philippines in 1986.

Apart from the long run growth differentials, the clearest cases of growth divergence have been during the AFC and the GER. For example, in the Philippines and Vietnam growth slowed markedly but in neither case would it be accurate to characterize the event as an economic crisis. In the Philippine case, growth was close to zero in the most affected year, while for Vietnam growth fell to about half the trend rate. Malaysia and Thailand experienced a year of negative growth on both occasions, but the magnitudes of the growth reversals in the later period were much smaller, around eight percentage points from peak to trough compared to 15-18% in 1997-98. The capital flight out of these economies in 2008 was smaller, and consequently there was no generalized exchange rate and financial sector collapse. The most interesting case of difference was Indonesia, where the peak to trough growth collapse was a spectacular 20 percentage points in 1997-98, but only 2% in 2008-09. Like its higher income ASEAN neighbours, in the latter period there was no financial and exchange rate crisis, for similar reasons.[2]

More importantly for the purposes of this paper, are the region's growth cycles synchronized? Table 1 reports a correlation matrix of the region's annual GDP growth rates over the period 1990-2010. Putting aside the outliers, Brunei and Myanmar, the coefficients are quite high, especially in the case of pairs of countries where intuition suggests similar growth drivers. For example, the two highest are for Malaysia with Indonesia and Singapore. Both these are as would be expected: Indonesia and Malaysia are commodity exporters, their economies are increasingly integrated, underpinned by capital and labour flows, and both were adversely affected by the AFC. Malaysia and Singapore have deep commercial ties, as well as being the region's most outward-oriented economies. Thailand's coefficients with these countries are also high. In fact, for the ASEAN Five, with the partial exception of the Philippines, practically all the bilateral coefficients are high, suggesting deepening integration. As the effects of the ASEAN Economic Community begin to be felt, the economic cycles of the latecomer economies are likely to converge increasingly with those of the ASEAN Five, reinforced by the region-wide integration with the Chinese economy.[3]

(Table 1 about here; see separate file)

(3) Macroeconomic Management

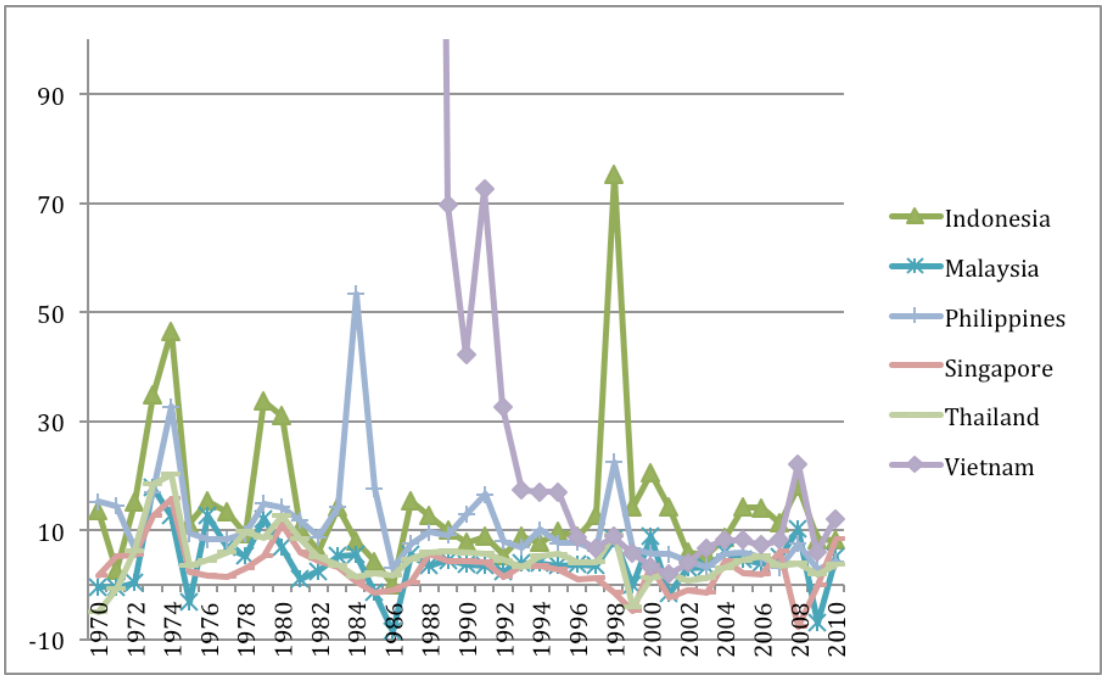
Figure 3 shows annual inflation rates for the Southeast Asian economies

[2] These diverse country experiences are of course the subject of a vast literature. A recent set of essays comparing countries and episodes is Hill and Gochoco-Bautista (eds, 2013).

[3] Another obvious test of regional economic integration would be the correlation in movements in their stock markets and other financial indicators. The available evidence is that they are not strongly integrated, with the partial exception of the Kuala Lumpur and Singapore indices.

over recent decades. Two major outcomes are evident. First, annual inflation has been consistently low, less than 10%, for over 95% of the annual observations, and always for Malaysia, Singapore and Thailand. Second, the rare cases of double-digit inflation have been quickly contained, with inflation returning to less than 10% within a year or two. These achievements are particularly noteworthy, confirming the conclusion of general inflation-aversion and prompt responses to occasional inflationary episodes, especially as this record has been achieved during one of the most tumultuous periods in global economic history, including two major crisis periods, food and commodity price volatility and, in several countries, considerable domestic political turbulence.

Figure 3: Southeast Asian Inflation, 1970-2010
(%, GDP Deflator, excluding outliers)



Southeast Asia has experienced four episodes of hyperinflation since the 1960s. These are Indonesia in the mid 1960s, and the three Indo China countries, generally during the transition from plan to market in the late 1980s and early 1990s, when soft budget constraints resulted in large fiscal deficits that were monetized. Putting aside these special episodes, the region has experienced two serious inflation peaks, two cases where prices rose by about 20%, and some further cases of inflation briefly in the range 10-20%. First, the high-inflation cases, in excess of 50% on an annual basis (and higher still on a quarterly basis): these are the Philippines in the mid 1980s and Indonesia in 1998. Both events occurred in the context of policy disarray, featuring deep economic and political crises. Long-lived authoritarian regimes collapsed, Marcos after 20 years in power, and Soeharto after 32 years. The economies contracting by over 12%, in one year (1998) in the case of Indonesia, in two years (1985-86) in the Philippines. Both inflationary periods had their origins in large fiscal

deficits that were quickly monetized.[4] In the case of the Philippines, the deficit was primarily the result of the then President Marcos's desperate attempt to cling to power in the forthcoming election through reckless spending in the context of slowing economic growth, rising capital flight, mounting political unrest, and the repayment of large debts contracted a decade earlier in a phase of aggressive external borrowing for uneconomic projects.

The Indonesian case differs in the sense that the fiscal expansion was directly crisis-related. Unlike in the Philippines, pre-crisis fiscal policy had been conventionally prudent. However, the capital flight that gathered momentum in late 1997 resulted in exchange rate collapse, and in turn a widespread banking and corporate collapse. Almost all domestic debtors had no foreign currency hedging and few had the automatic insurance of a secure foreign currency income flow. Thus they were unable to repay their debts, the Rupiah value of which had suddenly risen several hundred percent. In an attempt to secure financial and corporate stability, the government – by then incapacitated politically – entered into large-scale and largely ad hoc blanket guarantees, which fuelled further capital flight and dramatically increased public debts, which were quickly monetized. Here also the inflationary episode was quickly brought under control, aided by an anaemic economy.

Over the past decade, Cambodia and Vietnam have experienced episodes of moderately high inflation, but in both cases the inflationary pressures have been contained, and not allowed to escalate into more serious monetary crises. Cambodia experienced a brief period of hyperinflation around 1990, in the wake of the sudden withdrawal of Soviet aid, then equivalent to about 15% of GDP, and a government, hanging on to power in a protracted civil war, resorting to deficit financing. The result was a brief period of triple-digit inflation.[5] This was quickly brought under control following the Paris peace settlement of 1991, which resulted in large-scale foreign aid flows and hence non-inflationary deficit financing. Vietnam has experienced two periods of double-digit inflation in recent years, which Pham and Riedel (2012) attribute to the operation of Mundell-Fleming's 'impossible trinity'. Thus the government has attempted to maintain a peg to the US dollar, through a fixed but adjustable exchange rate. It has also opened the capital account, which for several years prior to 2009 resulted in very large capital inflows, peaking at the equivalent of about 25% of GDP at the time of Vietnam's accession to the World Trade Organization in 2007. The government has sought to sterilize these large inflows, with only limited success, primarily through changes to reserve requirements and compulsory transactions with the commercial banks.

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[4] This analysis draws on Gochoco-Bautista and Canlas (2003) for the Philippines, and several "Surveys of Recent Developments" in the Bulletin of Indonesian Economic Studies for Indonesia.

[5] See Menon (2008) and references cited therein for a fuller discussion.

These inflation outcomes have resulted in highly diverging exchange rate movements among these economies, illustrating again that any discussion of the proposition of a common ASEAN currency is decades away. As Figure 4 clearly shows, the countries with looser fiscal and monetary policy, and therefore higher inflation, have seen their currencies depreciate sharply. Again, the three best macroeconomic managers, Singapore, Malaysia and Thailand – more or less in that order – have generally had stable exchange rates, at least against the US dollar, to which they have frequently been pegged, implicitly or explicitly, apart from the special period of the AFC.

Figure 4A: Southeast Asian Exchange Rates, 1970-2010
(LCU per US$, period average, 1990=100)

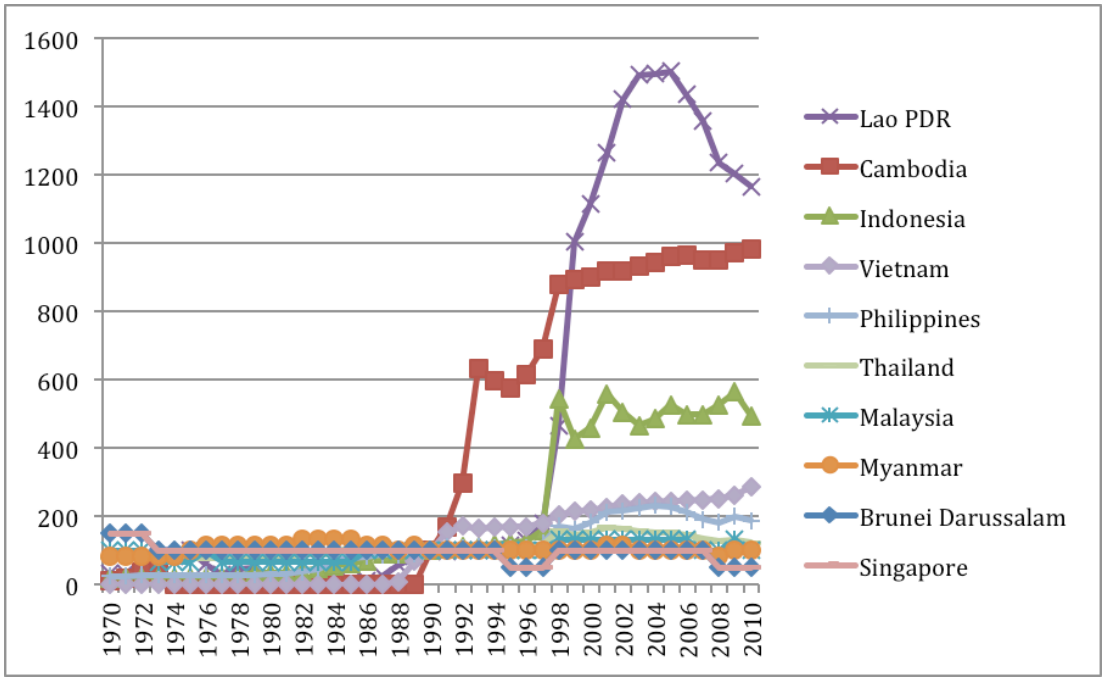
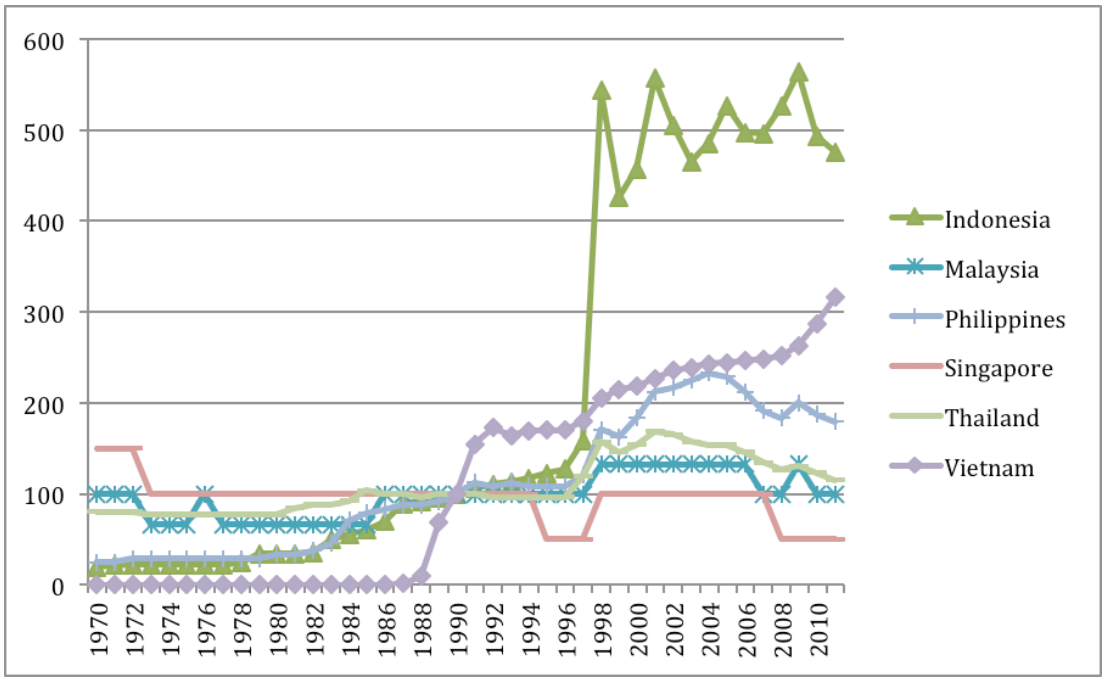


Figure 4B: Southeast Asian Exchange Rates, 1970-2010
(LCU per US$, period average, 1990=100, excluding Cambodia and Laos)



Fiscal policy is central to macroeconomic management since, as noted, the monetization of fiscal deficits is typically the most important explanation of inflationary episodes. The general Southeast Asian record over the past quarter century of volatility and crises has been one of fiscal prudence. Figure 5 shows fiscal balances for selected years for the seven Southeast Asian economies. Prior to the AFC, most countries ran small fiscal deficits or surpluses, a reminder that the initial IMF conditionality as part of its rescue packages of fiscal tightening constituted a general mis-diagnosis of policy settings in the affected economies. Budgets swung from surplus to deficit in the late 1990s, except for Singapore where its extraordinary record of fiscal thrift resulted in the fiscal stimulus taking the form of only a smaller surplus. Although most of the countries have run fiscal deficits since the late 1990s, they have been modest for several reasons. First, the tradition of prudent and powerful finance ministries somewhat immune from the political pressures that intrude into other portfolios has been maintained, and if anything strengthened since the AFC. Second, the trend towards establishing independent central banks that do not have as their remit the responsibility to finance a budget deficit has added a layer of fiscal policy caution. Third, explicit legislative restrictions on the size of fiscal deficits have been introduced or reinforced, most notably in Indonesia and Thailand. As a result of this fiscal prudence, public debt rose in the wake of the AFC, but since then it has either declined, or been stable relative to GDP.[6]

[6] Of course, these aggregate figures conceal both considerable country diversity and the fact that some countries have been able to carry significantly larger debt than others without difficulty. For example, Malaysia has run persistent fiscal deficits since the late 1990s, and it has been able to do so because of its traditionally high savings rate and its credible central bank, Bank Negara (Athukorala, 2012; Narayanan, 2012).

Figure 5A: Southeast Asian Fiscal Balances, 1990-2010
(% of GDP)

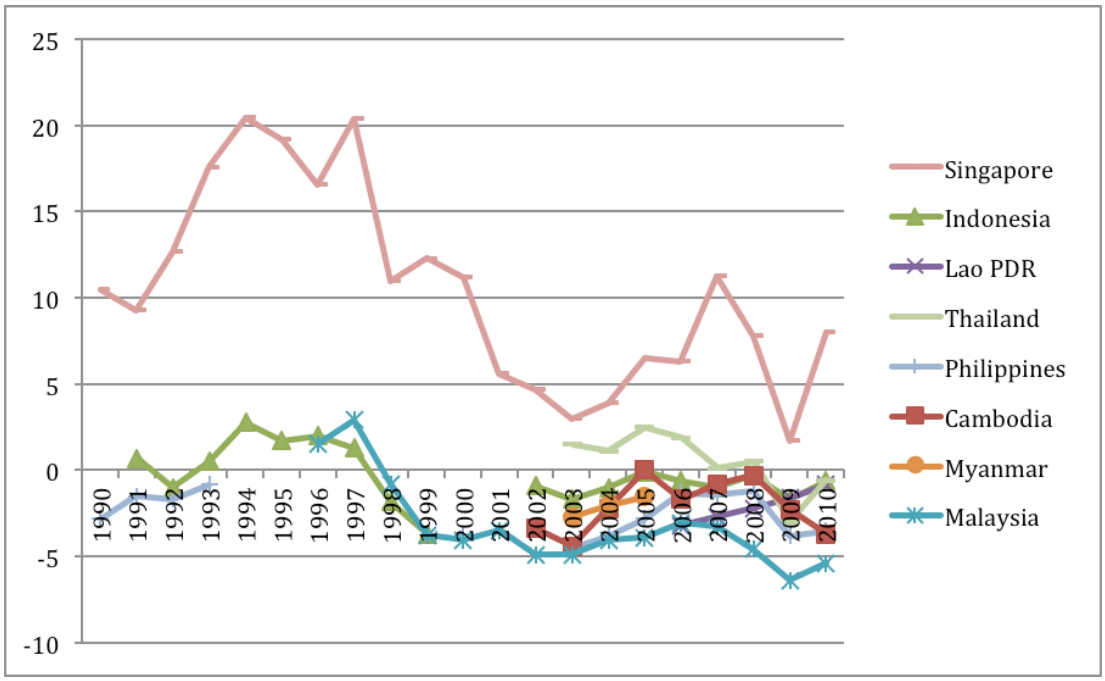
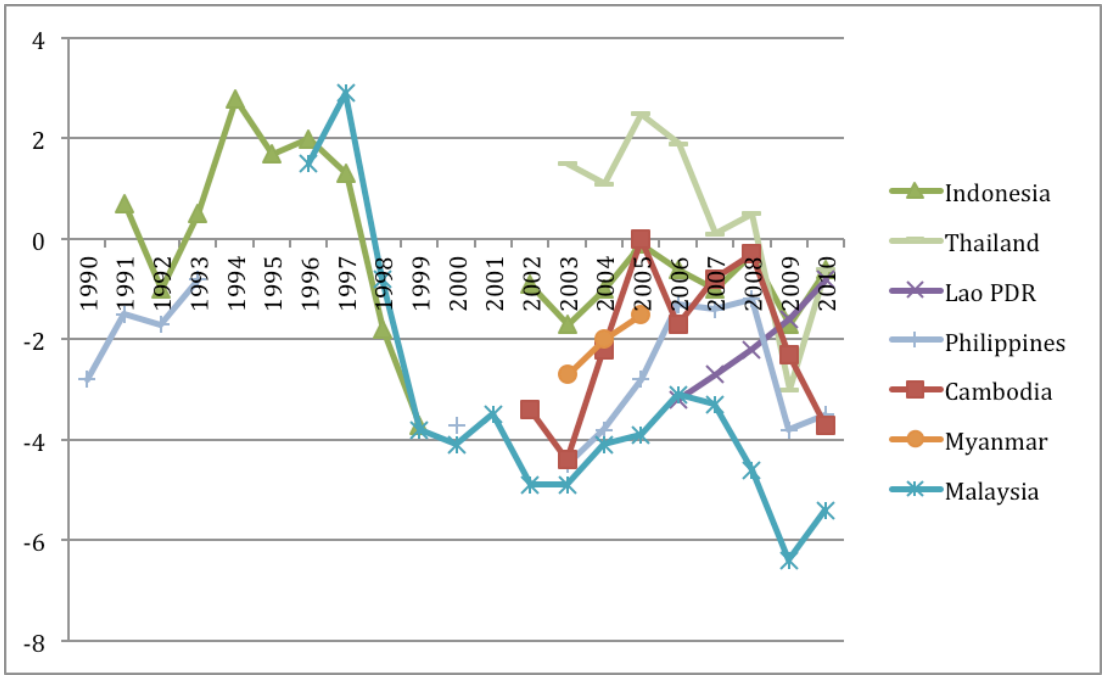


Figure 5B: Southeast Asian Fiscal Balances, 1990-2010
(% of GDP, excluding Singapore)



(4) Openness

In the late colonial period to varying degrees the Southeast Asian economies traded predominantly with the relevant metropolitan power owing to the imposition of discriminatory trade provisions. Over time, as these colonial impositions faded, they traded increasingly among themselves and the great Asian powers. However, in the post-colonial era, their trade policies diverged considerably. Figure 6 and Table 2 provide a summary picture of the standard openness indicators for these economies.

Figure 6A: Southeast Asian Trade/GDP, 1970-2010 (%)

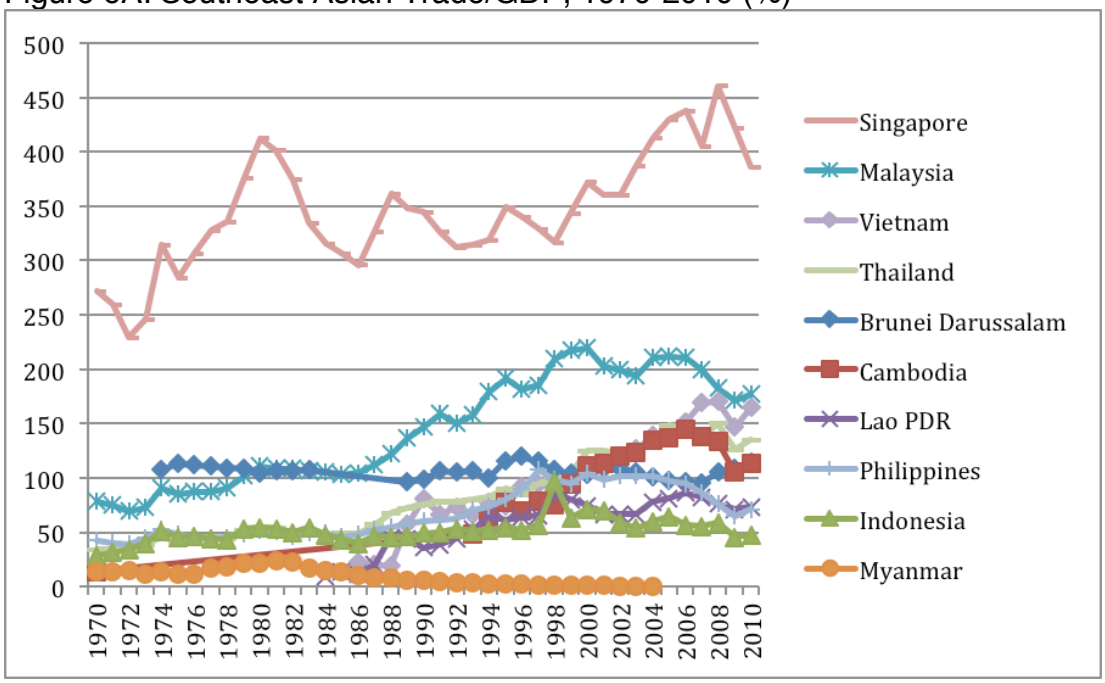


Figure 6B: Southeast Asian Trade/GDP, 1970-2010 (%, excluding Singapore)

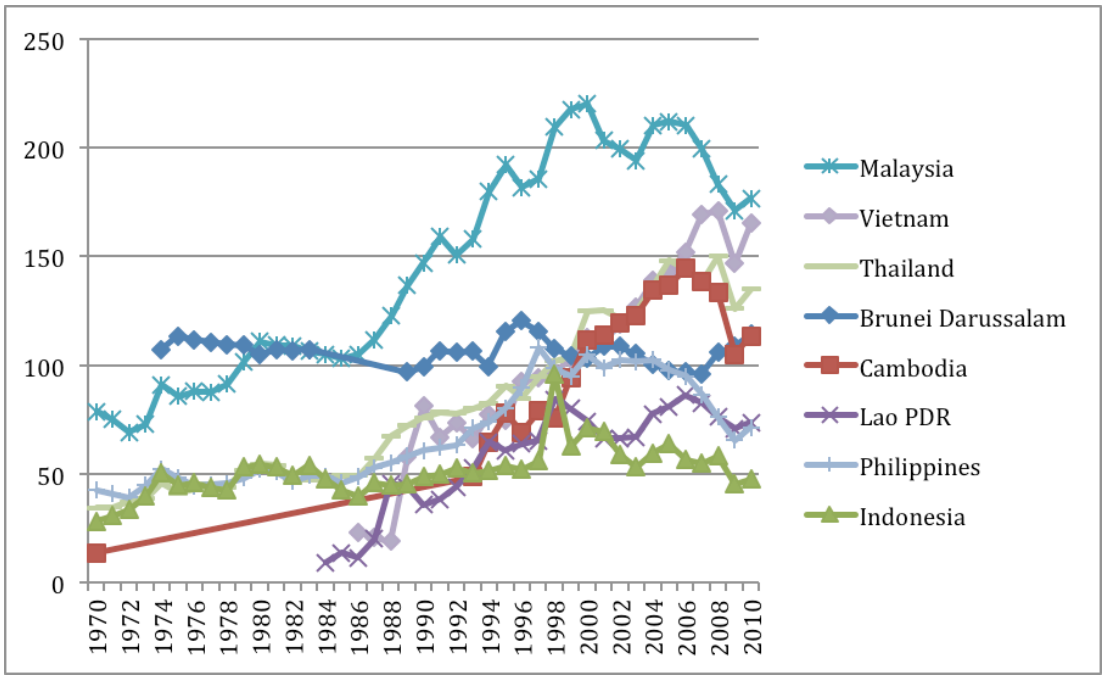


Table 2: Summary Indicators of Openness

Country	Trade (% of GDP), 2010/11	Tariff rate, applied, simple mean (%), 2008/9/10	FDI inward stock (% of GDP), 2011
Cambodia	113.6	12.4	53.4
Indonesia	55.9	4.8	20.5
Lao PDR	81.6	9.3	32.2
Malaysia	176.8	6.8	41.1
Myanmar		4	16.9
Philippines	62	5.3	12.3
Singapore	391.2	0	203.8
Thailand	148.1	11.2	40.4
Vietnam	167.9	7.1	60.3

Since the 1950s only Singapore has remained completely open to international commerce, apart from a very brief period of mild import substitution when it was part of Malaysia between 1963-65 (Huff, 1995). Singapore continues to rank as the most open economy in the world according to the two most-widely used indicators, that is trade flows and the stock of inward foreign direct investment (FDI), both relative to GDP. Malaysia too was a very open, export-driven economy at the time of independence in 1957, and it has never fundamentally deviated from this posture, apart from a costly flirtation with heavy industry during the Mahathir era, some protection for food crops, and various barriers to services trade. Thailand was never as open as Singapore and Malaysia, but its trade barriers were mostly mild,

usually in the form of tariffs, and FDI has always been welcomed, albeit with greater conditionality than in the other two economies. That these three economies have been unusually open is illustrated by the fact that they were among only six developing economies to be classified as 'always open' in the Sachs-Warner (1995) taxonomy.

For the other economies, the picture is mixed. The Philippines was the first country in the region to explicitly adopt an import-substituting strategy in the context of continuing preferential trading arrangements with its former colonial master the US, until 1974. It was not until the late 1980s that there was a significant change of direction which, once embarked upon, developed a constituency in support of the reforms, to the point where the country became fairly open by around the turn of the century. Indonesia turned increasingly inward after independence in 1945, and by the early 1960s it had effectively disengaged from the international community. However, the transition from Sukarno to Soeharto in 1965-66 marked a startling change of direction, and the economy suddenly became very open to both trade and investment. Thereafter the pendulum has swung back and forth. Although protectionist pressures and rhetoric have been ever-present, over the past quarter century these reforms have never fundamentally been overturned, even during the 1997-98 AFC, when strong anti-western sentiments surfaced in the wake of the IMF's mismanagement of the economic rescue package.

The four poor mainland Southeast Asian states also progressively disengaged from the global economy in the 1960s and 1970s. In Myanmar, the adoption of the 'Burmese Road to Socialism' in 1962 signaled a shift to a shambolic, state-run economy. The Indo-China War overshadowed the economies of Vietnam, Cambodia and Laos, and then all three countries became communist in 1975. About a decade later, however, the Mekong economies began to open up, initially cautiously, with Vietnam's Doi Moi leading reforms from plan to market. The success of these reforms resulted in a surprisingly quick re-engagement with the global economy, and by the late 1990s the Mekong economies could reasonably be described as market economies. Even Myanmar, once second to North Korea in its international isolation, began to liberalize in 2011, at an accelerating pace. These four countries had also joined ASEAN by 1999, an achievement of great historical significance: for the first time in its history, a hitherto deeply divided region was institutionally united and increasingly cohesive.

These successful and far-reaching unilateral liberalizations have been reinforced by ASEAN's adoption of what the late Hadi Soesastro (2006) referred to as 'outward-looking regional integration'. This has been a truly distinctive contribution of the region, which will be accelerated further with the formal implementation of the ASEAN Economic Community from late 2015. The countries of ASEAN trade predominantly with the rest of the world, and thus the costs of trade diversion would exceed the benefits of trade creation in any customs union. Moreover, their external trade regimes differ widely. Therefore, it would not make sense to adopt an EU-style

preferential/discriminatory common external tariff. Accordingly, the ASEAN countries have undertaken several waves of multilateralizing preferences, where they have voluntarily offered their AFTA concessions to non-members on a non-discriminatory basis. When the preferences are fully multilateralized, the margins of preference are zero, as is the potential for trade diversion. This was the case for more than two-thirds of the tariff lines for the ASEAN-6 countries through to 2002, and the proportion has increased since then. By 2008 the trade-weighted preference margin for intra-ASEAN trade was a mere 2.3%. Furthermore, because preferential tariff reduction schedules have been ambitious and rapid, AFTA has contributed to multilateral trade liberalization in the ASEAN countries. As a result, a zero MFN rate applied to 73% of its trade in 2008. Instead of jeopardizing multilateralism, it has hastened the speed at which these countries have moved towards their goal of free and open trade.[7]

In passing, one related issue where ASEAN progress has been less evident concerns the availability and effectiveness of financial safety nets.[8] These have been actively discussed and formally progressed since the AFC, owing principally to the deep dissatisfaction with the IMF intervention in the late 1990s. The first step was the creation of the Chiang Mai Initiative (CMI) in 2000. When the CMI proved inadequate in the 2008-09 GER, it was first multilateralized (to become CMIM), and then doubled in size to $240 billion, while the IMF de-linked portion was increased to 30% of the available country quotas. A surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO), was set up in 2011. These are apparently significant developments, but have they created a workable institution? Without clear and rapid-response procedures to handle a fast-developing financial emergency, it is unlikely that the CMIM will be used even as a complement to the IMF. Moreover, currently it seems even less likely that it could be used as a stand-alone option: its size, or the IMF de-linked portion of funds, needs to be further increased, as does its membership to add diversity. AMRO also needs to be developed into an independent and credible surveillance authority before it could reasonably be in a position to lead a future rescue.

(5) Institutions and Governance

Here arguably the greatest diversity exists. If one subscribes to the proposition concerning the primacy of institutions (for example, Rodrik (2003), Acemoglu and Robinson, 2012), and that they determine a country's long-term development outcomes, then the prospects for convergence among the 10 economies are weak.

[7] See Hill and Menon (2012) for further discussion of these issues.
[8] This paragraph draws on Hill and Menon (2014, forthcoming).

Table 3 presents a range of comparative data, for the ASEAN countries together with China and India. We focus on four of the most widely used indicators. Many more could have been selected, but this representative sample is indicative of the general picture. Most are computed on an annual basis, and there is little year-to-year variation in them. The major source of information is opinion surveys, supplemented by data from firm surveys.[9]

(Table 3 about here; see separate file)

The first is the annual World Bank Doing Business survey, which in 2012 included 183 countries and jurisdictions. The DB survey includes rankings for a range of business activities, and so it is in principle possible to identify quite narrowly a country's comparative strengths and weaknesses. The second indicator is an index of economic freedom computed by the conservative US think tank, the Heritage Foundation. In 2012 there were 179 country or jurisdictional observations. It also decomposes the rankings into particular forms of economic freedom. The third indicator is the annual Corruptions Perception Index (CPI) prepared by the Berlin-based Transparency International. Its 2011 survey included 182 observations. This is the most commonly used comparative indicator of corruption. Finally, there are the World Bank's World Governance Indicators (WGI), which are computed periodically and are presented on a percentile basis. The WGI includes estimates for six variables that are considered to be the key components of 'governance': voice and accountability, political stability and the absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.

Note that in the case of the first three indicators a lower score is considered a more desirable attribute, that is, easier to do business, greater economic freedom, less corruption. By contrast, a higher percentile ranking in the WGI is a preferred outcome, that is, greater voice and accountability, greater control over corruption, and so on.

There is a divide between the groups of variables related to 'government effectiveness' and those measuring 'democracy'. On most comparative indicators, Indonesia now scores most highly on the strength of its democracy (Diamond, 2010), followed by the Philippines. Yet these two countries score much lower on government effectiveness. That is, their free-wheeling democracies have not as yet been able to deliver lower corruption, although Indonesia in particular has now arguably the region's most activist and independent anti-corruption agency, known by its acronym KPK.[10]

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[9] Kis-Katos and Schulze (2013) and Lim and Stern (2002) provide excellent comparative surveys of institutional quality and corruption in Southeast Asia.

[10] See Crouch (2010) on the formation of Indonesia's KPK and its early history.

Singapore and Malaysia tend to be at the opposite end of the spectrum, with Singapore in particular always at or close to the top of rankings, globally and regionally, on institutional quality, and a business-friendly environment. But the two countries have each been governed by one party continuously since independence, and their political systems frustrate the emergence of viable opposition parties. Laos and Vietnam are the two least democratic countries in the region, along with Myanmar until recently, but Vietnam scores more highly on some governance indicators. Cambodia and Thailand adopt intermediate positions on the democratic indicators, but diverge on the effectiveness scales. Thailand is closer to the higher income countries on the latter, whereas not surprising Cambodia's institutions are among the weakest in the region.

Two general observations on these comparative assessments are relevant. First, the institutional quality indicators need to take account of the often substantial intra-country diversity, and thus a single summary statistic can be misleading. For example, both Indonesia and the Philippines have competent and independent central banks, while their legal systems and much of the rest of the bureaucracy are corruption-prone. As we have seen, they are also increasingly open economies. Moreover, following their major decentralizations, introduced in 1992 and 2001 respectively, local governance quality varies considerably, and these tiers of government have the resources and authority to shape local socio-economic outcomes. These various forms of 'islands of competence' in key areas of economic policy are central to understanding why and how moderately high rates of economic growth can co-exist with extensive corruption. This divide between the quality of macroeconomic and microeconomic institutions and policy-making is a feature of most of the other economies to some extent.[11]

Second, owing to the subjective nature of most of these indicators, their short time span, and their relative stability, it is not possible to determine whether any convergence is present. There are obvious examples of significant political change, such as the abrupt shift from authoritarian to democratic rule in Indonesia and the Philippines, in 1998 and 1986 respectively, and Myanmar most likely currently. But these are the exceptions, and they refer to changes that are readily measurable. Deeper institutional changes are inherently more difficult to measure, and typically much slower.

(6) Social Indicators

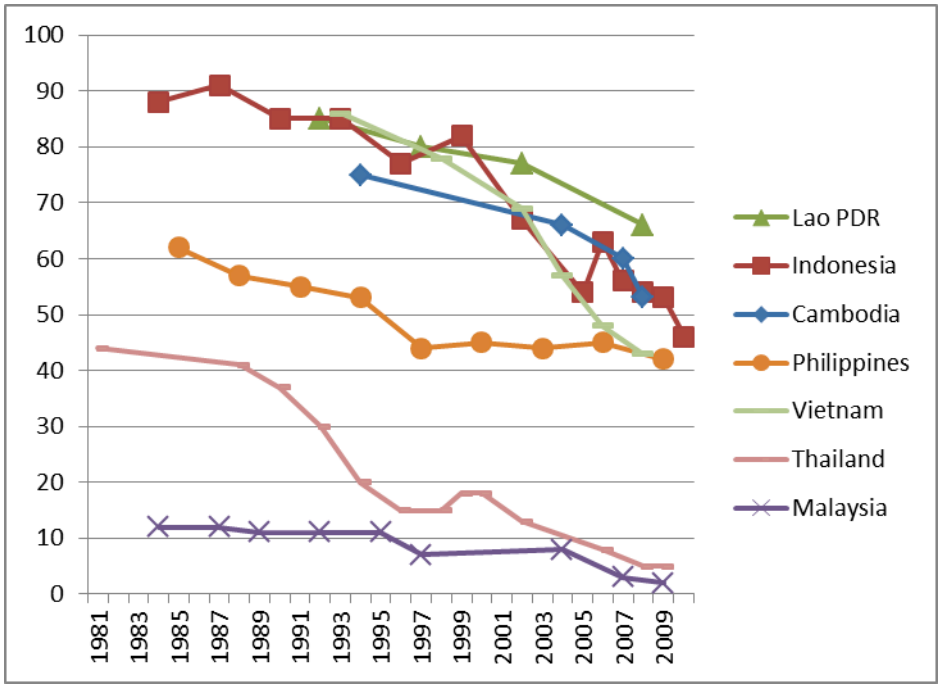
Southeast Asia's economic dynamism, combined with the general commitment to universal literacy and modest gender divides, has resulted in rapid improvements in social indicators. Can one therefore conclude that, allowing for the large income differentials, there is a 'Southeast Asian social

[11] See Ammar Siamwalla (2011) and his earlier writings for a discussion of this issue in the Thai context.

policy model'? In short, the answer is no, although here too there are substantial common features. We now briefly survey trends in various social indicators to substantiate this assessment.

First, the incidence of poverty had fallen dramatically in Southeast Asia whenever there has been high growth. Figure 7 shows the pattern since 1980 with reference to the $2/day (PPP) benchmark. According to this indicator, poverty has almost disappeared in higher income Malaysia and Thailand, while it has almost halved in countries that have experienced strong economic growth for at least two decades. The growth-poverty elasticities (not shown here) have also been quite high. The exception again is the Philippines, where slower growth, combined with a less elastic response to that growth, has resulted in a much slower reduction in poverty incidence. With remittances now equivalent to about 10% of that country's GDP, overseas employment opportunities are emerging as at least as important as economic growth in influencing poverty trends in that country.[12] There is of course nothing uniquely 'Southeast Asian' about these outcomes, except insofar as most of the region has grown quickly, and poverty has been highly growth responsive.

Figure 7: Southeast Asian Poverty Incidence, 1981-2009
(% of population below $2 a day, PPP)



[12] With the caveat that the 10 million or so overseas workers are not enumerated in the country's Family Income and Expenditure Surveys, but their remittances obviously are.

These poverty outcomes reflect the joint influence of economic growth and the distribution of income, the latter being the principal determinant of the growth-poverty elasticity. As Figure 8 shows, there is much less of a common story in the case of inequality.[13] Initial conditions varied greatly, with Malaysia and the Philippines inheriting highly unequal land ownership structures, that resulted in high levels of income inequality that have broadly persisted ever since. Plantation agriculture was much less of a feature in the other Southeast Asian states, either because they were predominantly traditional smallholder economies (such as Thailand) or the estates were nationalized (as in Sukarno's Indonesia). Subsequent development trajectories have also varied considerably. For example, inequality in Thailand began to rise quite quickly from the late 1970s, much of it associated with the divide between Bangkok and the poorer Northeast region. Cambodia commenced its recent rapid growth with extremely low inequality, as the Khmer Rouge and subsequent civil war had impoverished the entire population. The Khmer Rouge had anyway abolished private property ownership. Inequality has since risen sharply owing to the concentration of political power and international resource flows centred on Phnom Penh.

Figure 8: Southeast Asian Gini Ratios, 1981-2009
(see separate file)

Inequality in Indonesia was stable and relatively low during the Soeharto era, but it has begun to rise quickly over the past decade. Among the conjectured drivers of this increase are the rising wage inequality resulting from the highly interventionist labour market policies, the commodity boom and the unequal distribution of its benefits (as compared to the 1970s boom), and the skewed distribution of subsidies in education and health. Unlike in Thailand, inter-regional inequality has been quite stable (Hill, ed, 2014). In Singapore, much of the concern with inequality centres on the poorly educated elderly citizens with inadequate retirement savings, whose earnings are depressed by the presence of large numbers of unskilled foreign workers, and in the context of a very limited state welfare net.

Similarly, the policy approaches to inequality have varied greatly. Malaysia stands out for its consistent promotion of affirmative action to improve the relative standing of the Bumiputera community. Less explicitly, Indonesia has also adopted such policies. In the Philippines, a long running, and largely unsuccessful, agrarian reform program has been pursued. While all countries have been reasonably successful with the basic education strategies aimed at universal literacy and primary school enrolment, other aspects of health, education and welfare policies have been less effectively targeted and under-funded. Moreover, tax policies have been at best very weakly progressive, and often regressive.

[13] See Ragayah (2005) and Warr (2006) for comparative surveys of inequality in Southeast Asia.

Owing to space limitations, we do not survey the extensive literature on trends in other social indicators in any detail.[14] One approximate indicator of the priority that countries attach to social policy and outcomes is the comparison between their ranking according to per capita income and the United Nations Human Development Index (HDI). One would not of course expect the rankings to be similar. But significant differences in them are at least suggestive. That is, for example, the higher the relative ranking on HDI, the more a country could be said to have pursued 'egalitarian' social strategies. The flip side of course is that a higher relative HDI ranking could also indicate poor economic performance. Not surprisingly, for both resource-rich Brunei and Singapore with its high-growth priority, the income ranking is considerably and consistently higher than that of the HDI (Table 4). By contrast, the Philippines is the reverse, reflecting its early human capital advantage and slow economic growth. A similar observation applied to Vietnam in the 1990s, before strong economic growth narrowed the difference. Indonesia's rankings are close in both years. These outcomes therefore reinforce the view that there is hardly a Southeast Asian 'model' of social policy, both with respect to policy approaches and outcomes.

(Table 4 about here; see separate file)

In passing, in these as in some other respects, the Southeast Asian record does not accord with the stylized pattern of the four NIEs (and Japan earlier), with their emphasis on 'growth with equity'.[15] That is, the Northeast Asian economies grew faster, they had an earlier and more consistent emphasis on labour-intensive, export-oriented industrialization, they invested more heavily in broad-based human capital, and some of them implemented extensive asset redistribution through land reform. The four NIEs were of course extremely resource-poor, and they were strategically insecure. These factors – initial conditions, the early adoption of outward-looking strategies and targeted social policies – combined with the single-minded commitment to economic growth broadly explain these outcomes (World Bank, 1993).

(7) Conclusion

The 10 Southeast Asian countries are extremely diverse in their histories, economies, living standards, political systems, resource endowments, and

[14] In the case of demographic trends, see for example the comprehensive survey by Jones (2013), who highlights the kaleidoscope of patterns, including the rapid demographic transition in Singapore, followed by Thailand, Vietnam and parts of Indonesia, alongside the 'outlier' cases of Malaysia (at least among its Bumiputera community), the Philippines and Cambodia.

[15] See Booth (1999) and Manning and Posso (2010) for discussion of the differences between Northeast and Southeast Asia, with respect to growth strategies and social outcomes. In this as in other analytical constructs, Singapore belongs more with the Northeast Asian grouping.

institutions. It therefore makes little sense to advance the proposition that there is a 'Southeast Asian model'. Yet there are arguably greater similarities than are commonly realized, beyond the obvious geographic proximity. The countries are increasingly integrated economically and politically. The longer and deeper the process of formal integration proceeds, under the auspices of the ASEAN Economic Community, and through the proliferating regional networks of individuals and institutions, the more pronounced will these common features become. There is some modest convergence evident, of outcomes, policies and strategies. All these economies are becoming more open over time, and pursuing this openness in the context of the distinctive ASEAN approach to outward-looking regional economic integration. Macroeconomic policies are also converging to a regional norm of generally low inflation and at least moderately sound fiscal policy. Social policy priorities include a commitment to universal education through to lower secondary level. However, in several other respects, notably institutional quality and governance, and patterns of inequality, there is little evidence of convergence.

ASEAN's ambitious integration objectives are the glue that bind these economies together, and will hasten the convergent tendencies. As capital and labour – at least skilled labour – are able to move around the region with fewer restrictions, and firms compete in an increasingly integrated and seamless regional economy, and as societies at all levels become increasingly enmeshed, these trends will accelerate. For the foreseeable future, ASEAN will eschew the approach adopted by the European Union. The countries have displayed a clear reluctance to vest authority in a supra-national entity on a scale of the Europeans. It will be many years, if at all, before ASEAN adopts an EU-style common external trade regime. And the ongoing EU macroeconomic crisis has removed entirely the earlier, very remote possibility that the Southeast Asian countries might contemplate a common currency.

In addition to the integration agenda, within the region there are also powerful demonstration effects at work, formally through the various ASEAN scorecard projects (such as that conducted by the Jakarta-based ERIA research institute), but informally, and probably more important, through simply observing best-practice in the neighbourhood. The most important example is the latecomers observing the successful experiences of the early reformers. This was particularly the case as the Indo China economies embarked on the liberalization process from the late 1980s, where membership of the ASEAN Free Trade Area facilitated a more gradual re-entry into the global economy. At a practical level, even though Singapore has more in common with the other three Asian NIEs, analytically and with respect to economic growth, it sets the regional standards (with the exception, obviously, of democratic governance). Non-Singapore ASEAN nationals observe how well the island state's airport, port, public transport, urban amenities and financial systems operate, and they implicitly set aspirational goals for their own country.

In sum, there has never been a 'Southeast Asian development model', and it is unlikely that there ever will be. But as these countries become better integrated and more cohesive, so will their development strategies continue to converge in important respects. In decades to come, the diverse constituents of a seamless Southeast Asia are likely to look a lot more similar than would have been imaginable when the five leaders signed the Bangkok Declaration on August 8, 1967.

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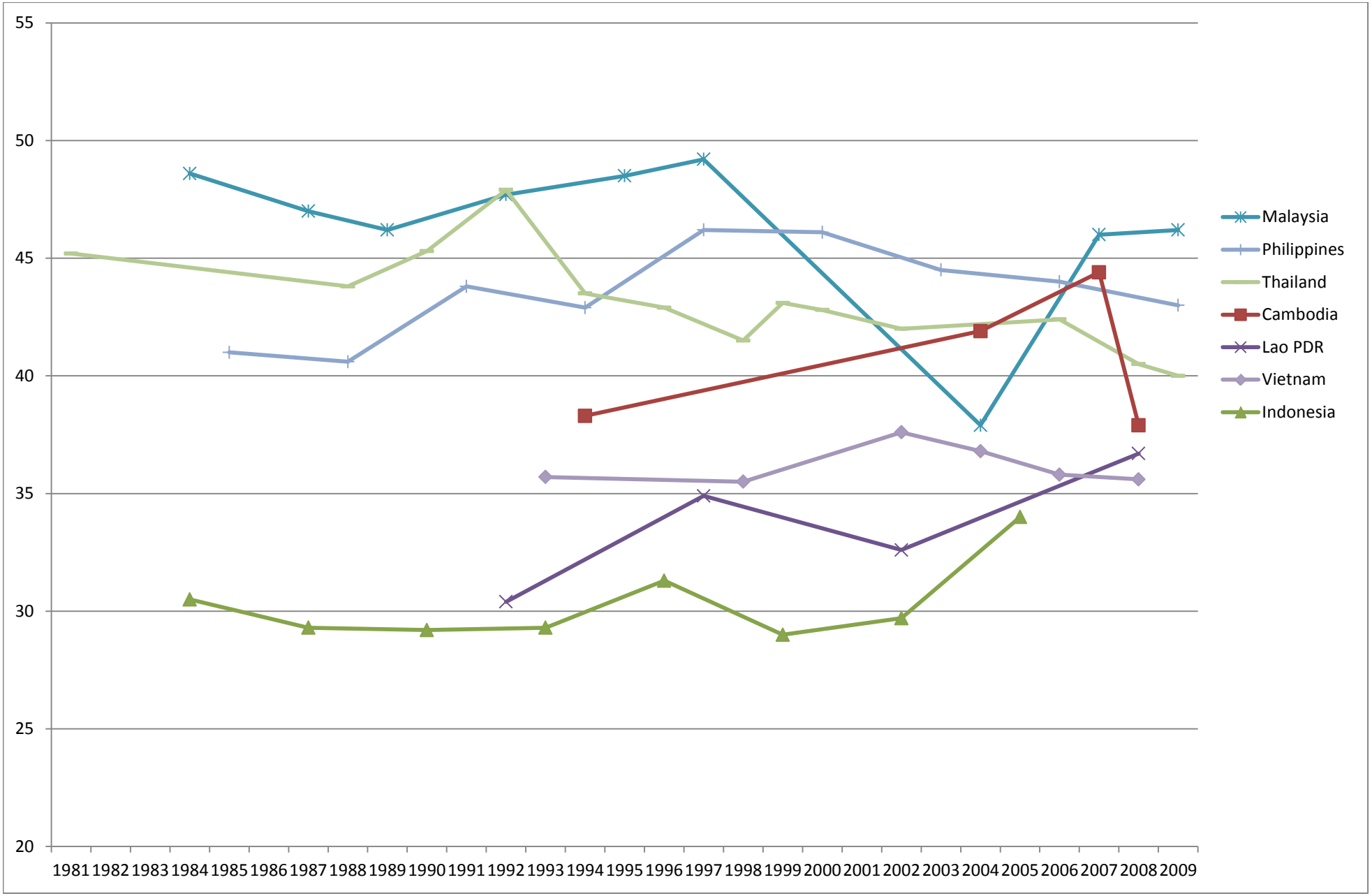
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Table 1: Southeast Asian Growth Correlations, 1990-2010

Country	Average GDP growth (1990-2010)	Coefficient of Variation	Correlation									
			Bru	Cam	Ind	Lao	Mal	Mya	Phi	Sng	Tha	Viet
Brunei	1.79	1.19	1									
Cambodia	7.81	0.40	0.27	1								
Indonesia	5.02	0.91	0.52	0.20	1							
Laos	6.66	0.18	0.36	0.39	0.76	1						
Malaysia	6.08	0.71	0.45	0.26	0.91	0.81	1					
Myanmar	8.37	0.51	0.30	0.65	0.19	-0.13	0.11	1				
Philippines	3.79	0.61	0.16	0.23	0.86	0.63	0.86	0.25	1			
Singapore	6.64	0.65	0.14	0.32	0.71	0.77	0.89	0.04	0.79	1		
Thailand	4.82	1.00	0.74	0.45	0.89	0.73	0.85	0.38	0.74	0.66	1	
Vietnam	7.31	0.19	0.17	-0.41	0.68	0.48	0.60	-0.38	0.63	0.51	0.50	1

Source of basic data: World Development Indicators, World Bank

Table 3: Governance Indicators: Southeast Asia, China and India

Indicator	Brunei	Cambodia	China	Indonesia	Lao PDR	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam	India
Ease of Doing Business, 2012, rank/183	83	138	91	129	165	18		136	1	17	98	132
Index of Economic Freedom, 2012, rank/179		102	138	115	150	53	173	107	2	60	136	123
Corruption Perceptions Index 2011, rank/182	44	164	75	100	154	60	180	129	5	80	112	95
World Governance Indicators 2010												
Voice and Accountability	29.4	24.6	5.2	48.3	5.7	31.3	0.9	46.9	37.4	30.3	8.5	59.2
Political Stability, Absence of Violence	92.9	25.9	24.1	18.9	36.3	51.9	11.3	6.6	89.6	12.7	51.4	10.8
Government Effectiveness	77.5	22.5	59.8	47.8	16.7	82.3	2.4	51.7	100	58.4	44	55
Regulatory Quality	82.3	35.4	45	39.7	17.7	71.3	1	44	98.6	56.5	31.1	39.2
Rule of Law	73.5	12.8	44.5	31.3	21.3	65.4	3.3	34.6	93.4	49.8	38.9	54.5
Control of Corruption	78.5	7.7	32.5	27.3	13.9	61.2	0.5	22.5	98.6	46.9	33	35.9
GDP per capita 2010, PPP (constant 2005 international $)		1968	6816	3880	2288	13214	1749	3560	51966	7673	2875	3073
GDP per capita growth (average annual, 1990-2010)	-0.62	5.97	9.22	3.63	4.54	3.72	8.21	1.65	3.90	3.80	5.82	4.73

Sources and notes:

Ease of Doing Business rankings for 183 countries and jurisdictions are from World Bank, Doing Business 2012, Washington DC 2012. Lower rankings indicate more business friendly environments.
Economic Freedom rankings for 179 countries and jurisdictions are from The Heritage Foundation, 2011 Index of Economic Freedom, New York, 2011. Lower rankings indicate greater economic freedom.
The Corruption Perceptions Index 2011 rankings for 182 countries and jurisdictions are from the Transparency International, Berlin, 2011. Lower rankings indicate lower corruption.
The World Governance Indicators 2010 are from Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues. Washington DC: The World Bank.
GDP per capita and growth data are from the World Development Indicators, The World Bank.

Table 4: HDI and GDP per capita Rankings, Southeast Asian Countries, 1995, 2011

Country	2011 Rank (/ 187)	1995 Rank (/ 174)	2011 GNIpc - HDI Ranking	1995 GNIpc - HDI Ranking
Brunei	33	41	-25	-34
Cambodia	139	153	11	-13
Indonesia	124	104	-2	-5
Lao PDR	138	138	4	-12
Malaysia	61	59	-5	-14
Myanmar	149	132	7	29
Philippines	112	100	11	8
Singapore	26	35	-22	-19
Thailand	103	58	-14	-3
Viet Nam	128	120	8	31

Source: Human Development Report, 1995, 2011

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