## Chapter 2

## Characteristic of the Countries

### Nature of Indonesia

Large-scale flows of foreign aid and a variety of domestic policy measure, which included a curb on government expenditure resulted a measure of stability being restored by 1969 and the achievement of an annual growth of GDP in excess of 6% between 1966 and 1970. The New Order government's successful economic management has enabled Indonesia to record consistently high rate of growth, well in excess of the rate of population growth, throughout the past three decades. This growth, which averaged more than 6% per year between 1970 and 1996, has been achieved despite a number of external shocks, including sharp movements in the price of oil and in international exchange rates, which affected the terms of trade. From a low-income country in the mid-1960s, Indonesia has transformed itself into a middle-income country with an estimated income per head of almost $1,150 in 1996[7].

Inflation has been a major problem in Indonesia since the 1950s and in 1996 it reached 640%. Major inflationary price increases did, however, take place in 1973 and 1974 in the wake of oil price rise of 1973 and poor rice harvests. The devaluation of November 1978 was largely responsible for an annual inflation rate (on December) of 21% in 1979. A similar surge was prevented after the March 1983 and September 1986 devaluation by very strict demand

[7] The Economist Intelligence Unit: Indonesia Country Profile 1997-98:21-22.

management. In 1989, however, the government relaxed its traditionally conservative fiscal and monetary policies in an effort to stimulate a more rapid rate of economic growth. This more expansionary stance was reversed mid-1990 in response to the growing inflationary pressures, and the government pursued a very tight monetary policy until mid-1992. The annual rate of consumer price increases was held at less than 13% for the remainder of the 1970s and early 1980s, and since 1984 has been held in single digits, with the exception of 1993, when it was 10.2%.

After oil price increase of 1973-1974, Indonesia's external trade was dominated by oil and gas exports, which consistently enabled it to register a surplus on its merchandise account, even though the non-oil/gas account remained consistently in deficit. Following the slump in oil markets from 1982 onwards, which caused a dramatic reduction in the overall surplus, a major campaign was launched to reduce the non-oil deficit, by cutting import demand and by promoting non-oil exports. Published trade statistics show this campaign to have been very effective. The overall surplus rose and the non-oil deficit were greatly reduced between 1983 and 1984. Indonesia's external trade is heavily biased towards only those countries –Japan, the United States, and Singapore-which between them bought almost two-thirds of Indonesia's exports and supplied 42% of its imports in 1990.

## Nature of Malaysia

Abundant natural resources and rapid growth in the manufacturing sector combined to give Malaysia one of the world's highest average growth rates in GDP over the past two decades (6.8% per year over 1971-1990). In the 1980s, however, GDP growth slowed to an annual average of 6%, depressed by a short but sharp recession in 1985-1986. In 1986 real GDP growth recovered with an increase of 1.2% and growth accelerated in subsequent years, peaking at 9.7% in 1990. The economy has since slowed but maintained growth rates in excess of 8% in 1990-1994.

The rate of inflation in Malaysia has been low relative to most other countries in the region. The consumer price index rose by less than 1% per year between 1985 and 1987, and although the rate has increased since 1987, the index rose by only 3.1% in 1990. The low rate of inflation was achieved despite the sharp devaluation in nominal terms of the ringgit after 1986. In 1991 there was a rise the inflation rate to 4.4%. Restrictive monetary policies were undertaken by the central bank in an attempt to stabilise inflation 1992 at around 4.5% but the index rose to an average of 4.7% for the year; a consequence of increased domestic demand.

Malaysia maintained a trade surplus throughout most of the 1970s but the composition of trade underwent a transformation in this period. The trade balance went in to deficit in 1982 for the first time in 25 years, largely because of a decline in the terms of trade. Between 1986 and 1991 exports increased at an annual average rate of about 20% in ringgit terms, driven by a 32% annual rate of increase in manufactured exports.

However, imports rose by an even higher rate of 29%. Rapidly rising imports in 1989 and 1990 -up by 40% and 30% respectively- reduced the trade surplus dramatically. In 1992 the trade balance went into surplus again. The appreciation of the ringgit assisted those industries whose exports had a high import content as well as reducing the overall import bill. In 1992 imports of input for the manufacturing sector accounted for 78% of total intermediate goods imports. All categories of imports were rising in 1991-1992, but import of consumer goods were growing particularly rapidly; the income elasticity of demand for imported consumer goods has been high in recent years[8]. Although Japan and the United States, the most important source of imports, Malaysia's imports in 1996 were mainly sourced from its partners within the ASEAN. Singapore, the United States and Japan are the main destinations for exports. Meanwhile, exchanges within ASEAN have been growing.

[8] The Economist Intelligence Unit: Malaysia Country Profile, 1997-98: 36-37.

**Nature of Philippines**

The GDP measure registered a marginal fall. The outturn in 1992 was little changed, with GDP go down by 0.04%. The pace of economic growth has stabilized in the mid-1990s, after the wide fluctuations of the preceding decade, when GDP contracted by over 10% in the crisis years of 1984 and 1985, then bounced back to 6% growth in both 1988 and 1989. As a result, economic growth halved in 1990 and, with a tighter budgetary stance, GDP fell slightly in 1991. The latter was largely responsible for holding down GDP growth during the first half of 1993. The rate of GDP growth doubled in 1994 and registered a further small improvement, to 4.8%, in 1995, when the outturn was depressed by drought, and a more marked increment in 1996, to 5.5%.

The situation deteriorated sharply after the 1983 payments crisis, with the devaluation pushing up inflation to a peak of 63% in September 1984. While the rate of inflation has fluctuated widely, inflation fell sharply in 1985 and continued to ease during the following year. By the second quarter of 1987 the rate of inflation had begun to move up again. Inflation accelerated to an annual rate of 14.1% in December 1989 and in the final quarter of 1990 and through the first half of 1991, reaching peak of 19.2 in June. Once the 1990 oil price rises fell out of the year-on-year comparison, inflation dropped, to 12.4% in December 1991 and to an average 8.9% in1992, aided by falling oil prices and the appreciation of peso. Further falls were recorded in 1993 when inflation averaged 7.6% for the year.

The Philippines' external trade balance has been sensitive to trends in foreign demand for a fairly narrow range of manufactures and commodities, and to quite marked change in the strength of import demand, reflecting bouts of rapid growth and decline in the economy. The structural change in Philippines' exports, away from prime commodities and towards manufactures with a high import component, has tied trends in imports spending more closely to foreign earning with exports covering only around two-thirds of imports. The United States and Japan remain the Philippines' dominant trading partners, but their share of Philippines exports has stabilised or declined in recent years as the country has diversified its markets, and in particular expanded its trade with its partners in ASEAN.

## Nature of Singapore

Since 1987 annual rates of growth have been high. Singapore survived the 1990-91 Gulf crisis virtually unscathed. A booming electronics sector and a continuing expansion in investment and in exports helped push GDP growth up to 10.4% in 1993; it has only fallen slightly since, to 10.1% in 1994 and 8.8% in 1995. Due to less rapid growth in the electronics sector, GDP growth for slowdown to 7% in 1996.

For a time in the 1980s the Singaporean dollar appears to have been held against a basket of other currencies. The appreciating exchange rate has countered the effects of domestic price pressures, so holding the rate of consumer price inflation in the 2-3% range. In addition to the advantages to business, the government recognizes that keeping inflation low has social benefits. Although the rate of inflation has been fallen to 2.3% in 1993, but up to 3.1% in 1994 due to the government has moved to cap rising costs in health care and discourage undue speculation in residential housing, which pushed up housing prices dramatically in 1993-94. The recent depreciation of the currency against the US dollar, the authorities are unlikely to allow inflation to escape from this band, till inflation rate has been remain of 1.4% in 1996.

Singapore has been run a persistent deficit on overall trade. The strategy remains to export as much as possible and to put very few barriers in the way of imports. Singapore trade hinges on exports of electronics. The next most important single export category is oil. The United States, a largest export market, appears unconcerned with the large trade surplus Singapore enjoys with it, probably because a high proportion of Singaporean exports comes from US-owned companies. Exports to the United States are dominated by electronics. Singapore imports a wide range of manufactured goods in return. The situation with Japan is reverse: imports of electronics and other goods from Japan, reduction Singapore's exports electronics to it, a substantial by oil. Trade with Malaysia and other South-east Asian countries could see significant changes over the next few years.

## Nature of Thailand

Thailand has experienced an impressively high rate of real GDP growth for almost three decades, averaging almost 8% per year in the 1960s and as high as 8.9% annually in 1975-79 despite the crisis provoked by oil price rises shortly before the beginning of 1973. After 1979 there was some slowing down in the rate of growth as the country adjusted to new economic circumstances. Thailand's GDP growth rates continued to be impressive in the first half of the early 1990s, averaging 8.9% per year between 1990 and 1995, but the growth rate, hit back by stagnating exports, fell back to around 6.4% in 1996.

Such low inflation marks a major reversal of the trends of the late 1970s. In particular, after 1976, rapid credit expansion to support the extraordinary growth of the finance and securities houses, the large public-sector deficits, the rise prices of imported goods and the need to adjust utility tariffs sharply upwards had caused the rate of inflation to rise rapidly. In 1980 the consumer price index rose by nearly 20%, but the more restrictive economic policies followed until 1988 produces a steady fall in annual increases. Rapid economic growth brought an upturn in inflation after 1988, with the rate over 1988-1990 averaging 5%. Despite the Gulf crisis, the rate in 1991 was held to 5.7%. The enforced slowing of economic growth in 1992 resulting from the political crisis in May brought inflation down to 4.1% that year and 3.3% in 1993. In 1995 the consumer price indexes rose by 5.8%, compared with 5% in 1994, but began to creep up in 1996 by 5.9%. Inflation has generally risen faster in Bangkok than in other areas.[9]

[9] The Economist Intelligence Unit: Thailand Country Profile, 1997-98: 13-19.

The situation improved in the 1985-87 period as oil prices weakened and the baht devaluation stimulated a boom in the country's industrial exports. Export growth in 1986-90 far exceeded expectations by expanding at an average 26% annually. Unfortunately, imports expanded even faster, and the trade deficit in 1990 and fallen only modestly since. Thailand's trade has been dominated by Japan. This country supplied 29% of Thailand's imports as well as taking 18% of export in 1992, and 30% and 17% in 1993. In recent years, however, especially with the rise of Thai textile exports, the United States has become the chief market for Thailand's exports, taking 21.6% of them in 1993. The destination of exports is also changing, increasingly going to destinations with in the region rather than to traditional markets in the developed world. For instance, in 1995 the share of trade with the ASEAN countries was for the first time larger than trade with the United States, the first trading partner.

## Relationship between the Variables

Figure 1-5 present relationship between ASEAN members' export values to Japan, Japanese permanent income and ASEAN members' relative export prices in comparison with Japan from 1967 to 1996. Relationship between Japanese permanent income and ASEAN members' export values to Japan have been increased similarly direction. Japanese permanent income has been increased slightly from 1967 to 1985, and sharply in the remaining of period. Although Indonesia relative export prices have been increased sharply than Japanese permanent income between 1979 to 1981. Moreover Philippine export value to Japan has been increased sharply in 1994-1996. Next, relationship between ASEAN member's relative export prices and ASEAN members' export values to Japan have unrelated direction. Exception about Singapore export to Japan and Singaporean relative export prices in comparison with Japan have a similarly direction until 1986 appeared in the opposite direction.

Figure 6-10 present relationship between ASEAN members' export values to the United States, the United States' permanent income and ASEAN members' relative export prices in comparison with the United States from 1967 to 1996. Relationship between the United States' permanent income and ASEAN members' export values to the United States have been increased similarly direction. The United States' permanent income has been increased smoothly through the period. However Malaysian export values have been increased sharply than the United States permanent income among 1991 to 1996. Next, relationship between ASEAN members' export values to the United States and

ASEAN members' relative export prices have unrelated direction. Exception about Singapore export to the United States and Singaporean relative export prices in comparison with the United States has been appeared in the opposite direction.

Figure 11-15 present relationship between ASEAN members' import values from Japan, ASEAN members' permanent income and ASEAN members' relative import prices from 1967 to 1996. Relationship between ASEAN members' permanent income and ASEAN members' import values from Japan have been increased in similarly direction. Next, relationship between ASEAN members' import values from Japan and ASEAN members' relative import prices have unrelated direction.

Figure 16-20 present relationship between ASEAN members' import value from the United States, ASEAN members' permanent income and ASEAN members' relative import prices from 1967 to 1996. Relationship between ASEAN members' permanent income and ASEAN members' import values from the United States have been increased in similarly direction. Next, relationship between ASEAN members' import values from the United States and ASEAN members' relative import prices have unrelated direction.