LINKING, DE-LINKING AND RE-LINKING: SOUTHEAST ASIA IN THE GLOBAL ECONOMY IN THE TWENTIETH CENTURY

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This paper examines how links between the economies of Southeast Asia and the world economy have changed over the twentieth century, paying particular attention to growth in commodity exports, investment flows and international migration. Most parts of Southeast Asia expanded their links with the global economy in the latter part of the nineteenth and early twentieth centuries, but the years from 1940 to 1965 saw a decline in Southeast Asia’s share of tropical exports, and of direct foreign investment. Migration flows also slowed. Over the last four decades of the twentieth century, international links expanded again, but there have been marked variations between countries.

INTRODUCTION

This paper examines the impact of the forces of globalisation on Southeast Asia over the twentieth century, paying particular attention to growth of exports, capital flows and international migration. These three aspects of globalisation have been extensively discussed by Williamson, O’Rourke and others in the context of the North Atlantic economy in the nineteenth and twentieth centuries. They are by no means the only aspects of globalisation which have been discussed by historians and social scientists in recent years and arguably the international flow of ideas on politics, administration and law have been just as important as increased commodity trade, capital flows and increased movements of people over the last two centuries. But because more statistical evidence is available on

1 I am grateful to Hal Hill, Gregg Huff and Thomas Lindblad for comments on previous drafts of this paper. The usual disclaimer applies.

2 For a general overview of the literature on these three aspects of globalization, see in particular O’Rourke, Globalization and Inequality. Hatton and Williamson, International Migration survey the evidence on international migration. Williamson, Winners and Losers, addresses issues of globalization and inequality.
commodity trade, capital flows and migration in Southeast Asia as in other parts of the world economy, I will focus on those issues in this paper.

By the end of the twentieth century, the 10 economies comprising the ASEAN group displayed enormous disparities in per capita GDP, and in other commonly used indicators of the level of development such as literacy rates and life expectancies (Table 1). Singapore’s per capita GDP was above that of most European countries, while Malaysia, Thailand and Indonesia grew faster than the OECD average between 1970 and 1995. Vietnam’s economic growth accelerated sharply over the 1990s. All these countries experienced significant improvements in life expectancies and literacy rates over the last three decades of the century. By contrast, Burma, Laos and Cambodia remained poor and undeveloped.

My concern is to offer some explanation for these disparities through an examination of their interaction with the global economy since the last decades of the nineteenth century. The key hypothesis which I test is that propounded by O’Rourke and Williamson that ‘where there has been openness, there has been convergence; where there has been autarky, there has been either divergence or cessation of convergence’. Although O’Rourke and Williamson asserted this on the basis of their study of the evolution of the North Atlantic economy in the nineteenth century, I will argue that the Southeast Asian region is also very appro-

Table 1. GDP and other social indicators, ASEAN economies, c. 1999

<table>
<thead>
<tr>
<th>Country</th>
<th>HDI Rank†</th>
<th>Life expectancy</th>
<th>Adult literacy</th>
<th>GDP per capita $PPP 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>26</td>
<td>69.5</td>
<td>77.1</td>
<td>92.1</td>
</tr>
<tr>
<td>Brunei</td>
<td>32</td>
<td>68.3</td>
<td>75.5</td>
<td>91.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>56</td>
<td>63.0</td>
<td>71.9</td>
<td>87.0</td>
</tr>
<tr>
<td>Thailand</td>
<td>66</td>
<td>59.5</td>
<td>69.6</td>
<td>95.3</td>
</tr>
<tr>
<td>Philippines</td>
<td>70</td>
<td>58.1</td>
<td>68.6</td>
<td>95.1</td>
</tr>
<tr>
<td>Vietnam</td>
<td>101</td>
<td>50.3</td>
<td>67.2</td>
<td>93.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>102</td>
<td>49.2</td>
<td>65.1</td>
<td>86.3</td>
</tr>
<tr>
<td>Myanmar</td>
<td>118</td>
<td>49.3</td>
<td>55.8</td>
<td>84.4</td>
</tr>
<tr>
<td>Cambodia</td>
<td>121</td>
<td>40.3</td>
<td>56.5</td>
<td>68.2</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>131</td>
<td>40.4</td>
<td>52.5</td>
<td>47.3</td>
</tr>
<tr>
<td>Average: East Asia and the Pacific</td>
<td>60.4</td>
<td>68.8</td>
<td>85.3</td>
<td>3,950</td>
</tr>
</tbody>
</table>

Notes: †162 countries are ranked according to a composite index; countries ranked from 49 to 125 are considered ‘medium human development’ and those ranked from 127 to 162 are considered ‘low human development’. Only the Lao PDR is in this category within the ASEAN nations; ‡Percentage of the population over 15 who are literate.
pRIAPTE FOR EXAMINING THE LONG-TERM EFFECTS OF BOTH INCREASING LINKS WITH THE GLOBAL ECONOMY, AND OF PROGRESSIVE DE-LINKING FROM THE REST OF THE WORLD.

THE EVIDENCE: GROWTH OF COMMODITY EXPORTS

According to the estimates of Bairoch and Etemad, the third world accounted for 27.5% of total world exports in 1830, and Asia as a whole (including the economies of the Near and Middle East) accounted for 44% of third world exports (Table 2). These data indicate that over more than a century, from 1830 to 1937, the main economies of Southeast Asia (excluding Burma) were successful in expanding their export trade relative to the rest of Asia, and to the rest of the third world.

This trend is confirmed for the years between 1883 and 1937 by the figures assembled by Lewis on the expansion of ‘tropical’ trade.4 In 1883 the economies of Southeast Asia (excluding Burma) accounted for less than 20% of total tropical trade; by 1937 the proportion had risen to almost 33%.5 In terms of real

Table 2. Asian and third world exports as a percentage of world exports, 1830–1937

<table>
<thead>
<tr>
<th>Year</th>
<th>Third world as % of world exports</th>
<th>Asia as % of third world exports</th>
<th>% of Asian total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>China</td>
<td>India</td>
<td>Southeast Asia</td>
</tr>
<tr>
<td>1830</td>
<td>27.5</td>
<td>44.0</td>
<td>20.6</td>
</tr>
<tr>
<td>1860</td>
<td>22.0</td>
<td>47.4</td>
<td>19.1</td>
</tr>
<tr>
<td>1900</td>
<td>19.4</td>
<td>47.8</td>
<td>15.1</td>
</tr>
<tr>
<td>1912</td>
<td>24.2</td>
<td>47.9</td>
<td>15.0</td>
</tr>
<tr>
<td>1928</td>
<td>25.3</td>
<td>49.9</td>
<td>16.5</td>
</tr>
<tr>
<td>1937</td>
<td>26.8</td>
<td>44.5</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Notes: 1Asia includes the Middle East as well as China, Korea and Hong Kong and Southeast and South Asia. India includes Ceylon, Burma as well as other parts of British India. Southeast Asia includes Indochina, British Malaya, Indonesia and the Philippines.

Notes: Three year averages centred on the year shown.

Source: Bairoch and Etemad, Structure par Produits des Exportations, Tables, 1.2 and 6.1.

4 Bairoch and Etemad define the third world to include all of Africa, Central and South America, and Asia (excluding Japan, but including British India, Southeast Asia, and China), as well as the Middle East (including Afghanistan, Iran, Iraq, Turkey, Cyprus, Crete, Syria, Palestine, Lebanon, Oman and Aden). See Bairoch and Etemad, Structure par Produits des Exportations, p. 92.

Lewis defines tropical economies to include all of Africa south of the Sahara (excluding South Africa, Namibia, Botswana and Lesotho), plus Egypt, Mexico, Central America and the Caribbean, South America (excluding Chile, Uruguay and Argentina) and Asia and the Pacific Islands (excluding China, Japan, Korea and Hong Kong). The economies of the Near and Middle East, with the exception of Egypt, are also excluded. See Lewis, Aspects of Tropical Trade, Table 9.

5 The data for Southeast Asia in 1937 include Burma; see Andrus, Burmese Economic Life, Table 23.
dollars, exports from Southeast Asia almost quintupled over the years from 1883 to 1937 (Table 3). In 1937, Indonesia and British Malaya (including Brunei and Singapore) each accounted for 34% of total exports from Southeast Asia, and Burma and the Philippines for a further 21%. The contributions of French Indochina and Thailand were much smaller (Table 4).

The estimates of Bairoch and Etemad, and of Lewis, indicate that Southeast Asia as a region became more and more linked with the rest of the world over the latter part of the nineteenth and the early twentieth centuries, at least in terms of the expansion of commodity exports. Space precludes an extensive discussion of changes in the direction of trade over these decades, which coincided with the final decades of colonial rule in most parts of the region. However, one point is worth emphasising. Although trading links with the metropolitan power were important in all the colonies (overwhelmingly so in the case of French Indochina and the Philippines), several parts of Southeast Asia were trading extensively with other parts of Asia, and with the US. This was most obviously the case with the two major rubber exporting economies, British Malaya and the Netherlands Indies, where the US had become an important trading partner by the 1920s. Exports to Japan also grew after 1913, although most economies in Southeast Asia were running large commodity trade deficits with Japan by the early 1930s.6

See Booth, Crisis and response, for a more extensive discussion of trading patterns in the Netherlands Indies, French Indochina and the Philippines over the 1930s, and of the response by the three governments to increased Japanese imports. In British Malaya, the USA had become an important trading partner as early as 1916, in part because of the growth of the automobile industry, but also because the disruption of shipping via the Middle East and the Mediterranean which occurred after 1914 led to a growth in shipping routes across the Pacific.

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Table 3. Southeast Asian exports: value and as percentage of total exports from the tropics, 1883–1998

<table>
<thead>
<tr>
<th>Year</th>
<th>As % of tropical total</th>
<th>Value ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1883</td>
<td>19.8</td>
<td>762.26</td>
</tr>
<tr>
<td>1899</td>
<td>20.8</td>
<td>1,142.24</td>
</tr>
<tr>
<td>1913</td>
<td>22.0</td>
<td>2,026.58</td>
</tr>
<tr>
<td>1929</td>
<td>27.3</td>
<td>2,948.62</td>
</tr>
<tr>
<td>1937</td>
<td>32.5</td>
<td>3,660.67</td>
</tr>
<tr>
<td>1955</td>
<td>21.7</td>
<td>4,035.20</td>
</tr>
<tr>
<td>1965</td>
<td>20.2</td>
<td>4,316.50</td>
</tr>
<tr>
<td>1980</td>
<td>34.5</td>
<td>27,123.68</td>
</tr>
<tr>
<td>1995</td>
<td>54.6</td>
<td>83,221.43</td>
</tr>
<tr>
<td>1998</td>
<td>50.1</td>
<td>83,971.35</td>
</tr>
</tbody>
</table>

Notes: †Southeast Asian data exclude Burma before 1937; ‡Values in constant US dollars deflated by the implicit price index (1955=100) given in the USCB, Statistical Abstract of the USA (1999), Series F 6–9, updated using the data in Table No 767.

The decolonisation process was a difficult one in many parts of Southeast Asia. The Japanese occupation, and the re-occupation by the Allied Forces three years later, were accompanied by widespread destruction of the infrastructure supporting the export sector in Burma, Malaya, Indonesia and the Philippines. In both Indonesia and French Indochina, the Dutch and the French only conceded political independence after a prolonged struggle with nationalist forces, which caused further economic disruption. In addition, several countries faced internal insurrection from ethnic minorities, and a variety of rebels inspired by either communism or Islam. By 1955, the Southeast Asian region as a whole had lost a considerable part of its share in total tropical exports. Real export growth between 1937 and 1955 was positive but very slow, even compared with the depression decade of the 1930s. By 1965, the share of Southeast Asia in tropical exports had fallen to just over 20% of the total, which was little more than in 1883 (Table 3).

The decline in Southeast Asia’s share of tropical exports from 1937 to 1965 was not uniform by country. British Malaya (including Singapore) which had already accounted for over one-third of total exports from the region in 1937, and 11% of all tropical exports, increased its regional share to almost 45% of regional exports by 1965, although its share of total tropical exports fell slightly to just under 10%. Thailand and the Philippines also increased their share of both regional and total tropical exports. However, Burma, Indonesia and the countries of former French Indochina all suffered severe declines in both their Southeast

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Burma</td>
<td>11.5</td>
<td>6.2</td>
<td>4.7</td>
<td>0.7</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Indochina</td>
<td>6.5</td>
<td>2.9</td>
<td>3.0</td>
<td>0.5</td>
<td>2.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0.0</td>
<td>0.3</td>
<td>0.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lao PDR</td>
<td>..</td>
<td>0.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>0.5</td>
<td>1.7</td>
<td>2.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>33.6</td>
<td>25.6</td>
<td>15.1</td>
<td>30.5</td>
<td>14.2</td>
<td>14.8</td>
</tr>
<tr>
<td>Vietnamese</td>
<td>0.5</td>
<td>1.7</td>
<td>2.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thai</td>
<td>4.7</td>
<td>9.1</td>
<td>13.1</td>
<td>9.0</td>
<td>17.6</td>
<td>16.5</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Asian and total tropical shares. In the case of Vietnam, political partition and the beginnings of a bitter and destructive civil war contributed to the poor export performance during 1950–1965. In all three countries the policy regime was biased against production for export. A combination of overvalued exchange rates, export taxes and deteriorating infrastructure all served to deter traditional exporters from using legitimate trading channels, while both domestic and foreign entrepreneurs had little incentive to invest in new export ventures, whether in agriculture, mining or manufacturing. These were the economies which Myint classified as ‘inward-looking’ and where he argued that ‘governments were unwilling to employ positive economic incentives to expand export production, not only for the foreigners but also for their own nationals’ in the immediate aftermath of independence.

The policy regime retarded export growth in both Indonesia and Burma in the 1950s and 1960s. However, it would certainly be wrong to claim that both economies comprehensively ‘de-linked’ from the international economy over these years. In Indonesia, the export volume had surpassed the 1940 level by 1950, and increased thereafter, albeit erratically, until 1955. Elsewhere I have argued that the ratio of exports to GDP did not fall sharply after 1950 but probably remained roughly stable. In Burma, the export volume was in the early 1950s still below pre-war levels, but, as in the case of Indonesia, the increasingly overvalued currency made estimates of export/GDP ratios from the national income sources more and more problematic. The ratio almost certainly fell in Burma, but not as sharply as the national income data would suggest.

The 15 years between 1965 and 1980 saw a considerable improvement in the share of Southeast Asia in all tropical exports, to the point where the share in 1980 was slightly higher than in 1937 (Table 3). But not all countries in the region shared in this recovery. Singapore, Malaysia and Brunei together increased their share of regional exports, and thus also their share of total tropical exports. In addition, Indonesia more than doubled its share of regional exports. This was partly due to the sharp devaluation of the rupiah which occurred in the late 1960s, which shifted productive resources back into export production. But the main cause was the rapid improvement in the terms of trade which took place over the latter part of the 1960s and the 1970s, due in part to the increase in the world price of oil. This terms of trade effect was also important in explaining the growth in export value in Malaysia and Brunei. But in Burma, Vietnam, Laos and Cambodia the decline in regional export share continued. By 1980 all four countries had largely seceded from the capitalist international economy, at least

7 Smuggling from Indonesia increased rapidly over the decade from 1955 to 1965. For estimates of its extent, see the papers by Cooper, Richter and Simkin in Bhagwati, Illegal Transactions.
8 Myint, Inward and outward, p. 8.
9 Rosendale, Indonesian Terms of Trade, Appendix Table 1.
10 Booth, Indonesian Economy, pp. 205–6.
as far as legitimate trade was concerned. Both the Philippines and Thailand also experienced a decline in their regional trade shares over the years from 1965 to 1980 (Table 4). In both countries, prices of traditional agricultural export staples (sugar and rice) fell over the latter part of the 1970s, and volume growth was erratic, especially in the Philippines.

The decades of the 1980s and 1990s were marked by rapid export diversification into manufactured goods in Malaysia and Thailand, following the success of Singapore in promoting manufactured exports since the 1960s. The pace of export diversification in both Thailand and Malaysia over these years was quite remarkable. In 1980 both economies were still relying on traditional primary staples for over 80% of their commodity export earnings. By 1999, manufactured exports accounted for 80% of the total in Malaysia and 74% in Thailand. All three economies increased their share of Southeast Asian export trade between the 1980s and 1995. Indeed by 1995 they accounted for almost 78% of all Southeast Asian commodity exports (Table 4). The Indonesian share contracted again after 1980, but the decline cannot be explained by the same factors as those which explained the contraction in Indonesia’s share between 1937 and 1965.

After the decline in the world price of oil in the early 1980s, the Indonesian government embarked on a range of measures to promote non-oil export growth, with considerable success. During 1980–1995, the value of Indonesian exports in terms of US dollars more than doubled. However, exports from Southeast Asia as a whole more than quadrupled over these years, so that by 1995 Southeast Asia accounted for almost 55% of all tropical trade, as defined by Lewis, and around 23% of all third world trade. The huge increase in exports from China after 1980 meant that the share of Southeast Asia in total Asian exports fell during 1980–1995, although its share in both third world and global exports increased. The severe crisis which affected the region in the latter part of the 1990s caused export growth to slacken, and the share of Southeast Asia in total tropical exports to fall to around 50%, which was still a much higher share than in 1965 or 1980. Similarly the share of the 10 ASEAN nations in both third world and global trade fell only marginally (Tables 3 and 5).

The remarkable resurgence in export production in Southeast Asia after 1965 owed much to government policy, which facilitated the continued expansion of traditional staples and encouraged diversification, especially into manufactured exports. But it is clear that these policies were pursued far more successfully in some parts of the region than in others. Thailand, Malaysia and Singapore

12 Data on Vietnam’s exports in both dollars and roubles for the 1980s are given in McCarty, Paunlagui and Vu, Vietnam Data Bank, Table 7.4.
14 See Hill, Indonesian Economy since 1966, pp. 81–84.
Burma by contrast continued to pursue policies hostile to export growth even after the nominal change in its foreign investment regime in the early 1990s. By the mid-1990s Burma’s share in the region’s exports had dwindled to virtually zero. De-linking would seem to have been comprehensive, although unrecorded trade continued. In Vietnam, Laos and Cambodia, trade and exchange rate policies have been reformed over the 1990s, and export growth has been quite robust, although starting from a small base. But in 1998, these three countries still only accounted for 3% of all exports from the ASEAN region, a share that was little changed from 1965.

THE EVIDENCE: GROWTH OF FOREIGN DIRECT INVESTMENT

In 1914, foreign direct investment (FDI) comprised at least 35% of the entire stock of international long-term debt. According to one estimate, the stock of FDI amounted to more than 9% of world GDP in 1913, ‘a figure which had not been surpassed in the early 1990s’. But prior to 1940, as in the post-1950 period, international flows of investment were uneven by both country of origin and destination, as well as by sector. In 1914, over 85% of the accumulated stock of foreign investment in the world economy originated from just four economies: the UK, the US, Germany and France. While the share going to the rich economies

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15 O’Rourke, Globalization and Inequality, p. 46.
16 Bairoch and Kozul-Wright, Globalization myths, p. 46.
of Western Europe, North America and Australasia was only around 30%, a further 33% went to Latin America, and especially to those countries in South America which has attracted large numbers of European migrants. Asia’s share of the stock of foreign investment in 1914 amounted to only about 21%. By 1938, this share had increased to 25%, of which almost 14% went to Southeast Asia. 

Before 1940, data on inflows of foreign direct investment are certainly underestimates, both in Southeast Asia and in other parts of the developing world. Thus the stock of FDI outside the core capitalist economies and the European offshoots in South America and Australasia might well have been higher than published estimates indicate. A particular problem in Southeast Asia is the underestimation of investment by the overseas Chinese, which some scholars have argued could add at least another 30% to the amounts quoted in the standard Western sources. This might also affect the argument that investment from the colonial powers (Dutch, French, British and American) dominated in their respective colonial possessions in the last phase of the colonial era, although even allowing for the role of Chinese investment in various parts of Southeast Asia, it appears certain the French and British capital was dominant in Indochina and Burma respectively. 

The statistical evidence on FDI flows after 1950 show a marked increase in flows within the developed world, so that by 1960 the developed economies accounted for over two-thirds of the entire stock of foreign direct investment in the global economy. By the end of the 1990s their share had increased to 70%. Exactly why the share of developing countries in total foreign investment fell so steeply in the second part of the twentieth century remains a puzzle, as economic theory would suggest that returns on investment would be much higher in capital-scarce countries. In the Asian context, the two largest economies (China and India) pursued policies which were extremely hostile to foreign direct investment for three decades from 1950 to 1980, although both countries did open up their economies to foreign investment in the last two decades of the twentieth century. Still, their share of total FDI stock in 1999 was below that in 1914.

Along with most other developing countries, the Southeast Asian nations as a group have experienced a decline in their share of the global stock of foreign investment since 1938 (Table 6), but their share of the FDI stock of all developing countries has risen. Furthermore, the distribution of FDI within the ASEAN region has been highly skewed, and Singapore and Malaysia have accounted for around 50% of the total stock after 1990. Their share increased slightly between 1980 and 1995 in spite of the opening up to FDI which occurred in Burma, Laos,
Cambodia and Vietnam over these years. It may seem puzzling that the two richest economies in the ASEAN region should between them account for such a high proportion of total FDI. However, both governments have pursued investment-friendly policy regimes over several decades. In both countries FDI has accounted for a much higher proportion of gross domestic capital formation than the Asian average over the years from 1970 to 1993.22

The evidence: international migration flows

The third aspect of international linking which I will examine briefly relates to migration flows. People have moved between Southeast Asia and the Indian subcontinent, the Middle East and China for many centuries, but towards the end of the nineteenth century these migration flows accelerated. This was partly due to cheaper and faster shipping links, and the push-factors in the sending regions of India and China (harvest failures and famines, and in parts of China mounting civil strife).23 Pull-factors were also crucial; the rapid growth of the export economies of Southeast Asia after 1870 presented abundant opportunities for wage labour, especially to impoverished young men whose employment chances

Table 6. ASEAN share of regional and world stock of foreign direct investment, 1914–1998 (percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>ASEAN as % of:</th>
<th>% of ASEAN Stock in Malaysia/Singapore</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Asia†</td>
<td>Developing countries‡</td>
</tr>
<tr>
<td>1914</td>
<td>49.5</td>
<td>15.8 (18.0)</td>
</tr>
<tr>
<td>1938</td>
<td>54.4</td>
<td>20.7 (22.7)</td>
</tr>
<tr>
<td>1960</td>
<td>73.3</td>
<td>17.0 (17.0)</td>
</tr>
<tr>
<td>1980</td>
<td>13.8</td>
<td>10.0 (10.3)</td>
</tr>
<tr>
<td>1985</td>
<td>23.6</td>
<td>14.5 (14.9)</td>
</tr>
<tr>
<td>1990</td>
<td>30.2</td>
<td>18.4 (19.4)</td>
</tr>
<tr>
<td>1995</td>
<td>31.9</td>
<td>20.1 (24.0)</td>
</tr>
<tr>
<td>1998</td>
<td>23.8</td>
<td>14.3 (17.4)</td>
</tr>
</tbody>
</table>

Notes: †Asia includes East, South and Southeast Asia but not Japan; ‡Figures in brackets show ASEAN 10 as a percentage of developing countries excluding China; §Data from Lindblad, Foreign Investment, Table 1.1. This refers only to western investment and excludes that by overseas Chinese. Were this to be included, the Singapore/Malaysia share would probably be higher.

Sources: Dunning, Multinational Enterprises, Table 5.2; UNCTAD, World Investment Report, 2001, pp. 301–5.

Cambodia and Vietnam over these years. It may seem puzzling that the two richest economies in the ASEAN region should between them account for such a high proportion of total FDI. However, both governments have pursued investment-friendly policy regimes over several decades. In both countries FDI has accounted for a much higher proportion of gross domestic capital formation than the Asian average over the years from 1970 to 1993.22

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22 Chang, Transnational corporations, Table 7.2.
23 Latham, Southeast Asia, gives a useful overview of the evidence on both Chinese and Indian migration. He argues that ‘adversity and economic opportunity were the key factors, with cheap steamship fares playing a part’.

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in their home regions were often bleak. More educated Indians and Chinese also found lucrative employment as employees in both the government and private sectors, and as merchants, shopkeepers and professionals.

Writing about Indian migration to Burma, Bernadelli asserted that the ‘migrants moved slowly, tentatively, soberly guided by the signals of prosperity’. He argued that the market for Indian coolie labour in Burma was a remarkably free one, with a perfectly elastic labour supply at the prevailing wage, and contractions or expansions in labour demand being reflected in increasing, or decreasing employment. Thus the number of deck passengers arriving at Rangoon peaked in the late 1920s, and fell quite sharply thereafter as employment opportunities contracted with the onset of the depression. Although many migrants returned, the numbers of Indians resident in Burma grew over the first three decades of the twentieth century to an estimated 1 million in 1931.

The other important destination for Indian migrants was British Malaya, where the population was estimated to be 610,000 in 1931. But here and in most other parts of Southeast Asia the numbers of migrants from India, and from other parts of Asia, were greatly outnumbered by those from China. By 1930, colonial censuses in British Malaya and the Netherlands Indies enumerated 1.71 and 1.23 million Chinese respectively. In other parts of Southeast Asia the numbers of resident Chinese are more contentious; Skinner has claimed that in 1932 there were 1.6 million Chinese in Thailand, and Purcell suggests that there were over 400,000 in French Indochina and a further 194,000 in Burma and 72,000 in the Philippines in the early 1930s. These estimates total to around 5.2 million. But given the imprecise evidence on which some of these estimates are based, and the probability that colonial censuses did not capture all Chinese migrants, this is likely to be an underestimate.

As with the Indian migrants to Burma and British Malaya, many Chinese came to Southeast Asia with the goal of saving money and returning home. But many remained, and by 1947, the Chinese population in Southeast Asia was estimated to be in excess of 8 million. This was about 5% of the total population, and only in British Malaya (including Singapore) did the Chinese outnumber the indigenous population. Many overseas Chinese were unsympathetic to the Chinese communists which provided another reason for not returning, even when post-independence governments in many parts of the region began to take an overtly anti-Chinese stance. The main complaint of nationalist leaders, especially in Malaysia and Indonesia was that the Chinese had enjoyed better access to education in the colonial era, and were thus unfairly advantaged in the professions.

25 Sundrum, Population Statistics, p. 40; Sundrum, Note, Table 4.
26 Smith, Population Growth, Table IV.
27 Purcell, The Chinese in Southeast Asia, p. 3.
28 Skinner, Chinese Society in Thailand, Table 8, Purcell, Chinese in Southeast Asia, p. 3.
29 Smith, Population Growth, Table IV.

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and in industry and commerce. After independence, Chinese were frequently discriminated against in the public education system and in public sector employment. Everywhere in Southeast Asia after 1950, governments imposed tough restrictions on further immigration from both India and China.

Thus for several decades, migration ceased to play an important role in the demographic and economic development of Southeast Asia. But during the 1980s new international migration patterns began to emerge which contrasted sharply with pre-1940 patterns. Instead of inward migration from poor and overcrowded regions of India and China, the new trends involved out-migration of residents of Southeast Asia to the Middle East and Northeast Asia, and to a lesser extent, Western Europe, North America and Australia. In addition millions of people from the poorer parts of the region crossed international borders, often illegally, to seek work in Malaysia, Singapore, and Thailand. By the latter part of the 1990s, it was estimated that these three economies hosted over 3 million guest workers, mainly from Indonesia, the Philippines and Burma. In addition several hundred thousand Thais, Filipinos and Indonesians were working in Taiwan and in Japan.30

These new migration patterns have been driven by much the same factors as those which pushed many millions of Chinese and Indians into Southeast Asian labour markets earlier in the twentieth century. Poor economic opportunities at home combined with the lure of higher wages in the host economies and cheap fares have encouraged millions of workers to try their luck in a foreign country. In Malaysia and Thailand it has been argued that migrants have accounted for at least one-third and perhaps over half of the growth in the unskilled labour force over the 1990s.31 The severe downturn in both economies in 1998 caused some slackening in demand, and several hundred thousand Indonesians were repatriated from Malaysia. However, many will doubtless return, as job prospects at home are even more bleak.

As yet little work has been done on the effects of these new patterns of migration on either the sending or the host economies. It seems probable that in Malaysia, where guest workers comprised 10–15% of the labour force before the crisis, and in Singapore, where the proportion was over 25%, the impact of immigration has been to depress wages of unskilled and semi-skilled workers in the labour market and to widen the wage gap between skilled and unskilled workers.32 In the context of the North Atlantic economy in the nineteenth and early twentieth centuries, Williamson argues that these flows had the effect of raising wages

30 Manning, Structural change, Table 1.
31 Manning, Structural change, p. 369.
32 A study by the Singapore Department of Statistics pointed out that the ‘tendency towards duality’ in the Singapore labour market was caused by the ability of professional and skilled workers to command international wages on the one hand, while on the other hand the continuing influx of foreign workers pushed down wages for unskilled and semi-skilled workers. SDS, Is Income Disparity Increasing?
in the poor sending-regions (such as Ireland) and depressing them in the more affluent host economies such as the US, which helped to produce the anti-migration backlash of the inter-war era.\textsuperscript{33}

Income distribution does appear to have become more skewed in Malaysia between 1990 and 1997, while in Thailand the Gini coefficient of income inequality increased steadily from 1981 to 1992, but trended downward afterwards, although it was still higher in 1998 than in 1981.\textsuperscript{34} Income distribution also became more skewed in Singapore over the 1990s, with a particularly sharp increase in 1999.\textsuperscript{35} To what extent these trends have been due to accelerated immigration of low-skilled workers remains unclear but it seems plausible to argue that it was a contributory factor. Certainly it seems likely that if unskilled migration flows into the more prosperous parts of Southeast Asia continue in coming years, this will depress wages of unskilled and semi-skilled workers, which in turn could well provoke an anti-immigration backlash in the host economies.

\section*{BENEFITS AND COSTS OF INTERNATIONAL LINKAGES}

The evidence examined in this paper would seem to make an overwhelming case for the proposition that those economies in Southeast Asia which successfully linked to the international economy in the latter part of the nineteenth and early twentieth centuries, and remained linked after 1950, have experienced the fastest rates of economic growth. Singapore, Malaysia and Thailand all had per capita GDP well above the Asian average by the mid-1990s, and also scored well on other development indicators. Those economies whose commitment to open trade and investment policies has been less than wholehearted over the past five decades, including Indonesia, the Philippines, and Vietnam, have done less well. In these three countries, periods of accelerated growth have been achieved after policy reforms aimed at improving incentive for producers of traded goods, and encouraging foreign investment.

In the case of Burma, Laos and Cambodia which de-linked comprehensively after 1960, the consequences for per capita GDP and welfare have been extremely adverse. These countries now have the lowest per capita GDP among the ASEAN-10, and other social indicators are also unfavourable. All three governments have attempted to implement at least some ‘open-type’ policy reforms over the 1990s, with varying degrees of success, and in all countries the government

\textsuperscript{33} Williamson, Growth Distribution and Demography, pp. 256–9; see also Williamson, Globalization, convergence and history, pp. 300–2.

\textsuperscript{34} Data on Gini coefficients are given in: SDS, Is Income Distribution Increasing in Singapore? Table 1; Yusof, Income distribution in Malaysia, Table 6.1; World Bank: Thailand Social Monitor, pp. 26–7.

\textsuperscript{35} In 1999, the Singapore Department of Statistics estimated the Gini coefficient of household income to be 0.467, compared with 0.436 in 1990.
commitment to stronger ties with the regional and global economies is unclear. But on the other hand, it is unlikely that accelerated economic growth and higher living standards for the majority of their populations can be achieved without further integration of these economies with those of their neighbours, and with the wider world.

Such integration is not without risk, as several countries in ASEAN learned during the ‘Asian crisis’ of 1997/98. The immediate cause of the crisis was the decision of the Thai government to float the baht in early July 1997. This decision was not unexpected, as Thailand had already experienced a sharp slowdown in export growth, and in GDP growth, over the previous year. But the magnitude of the depreciation and the difficulties it caused for many Thai firms and financial institutions caught many observers by surprise. So did the extent of the contagion to neighbouring economies, including Malaysia, Indonesia, the Philippines and Singapore. The currencies of all four economies depreciated sharply in the latter part of 1997 and early 1998, and all four also experienced a sharp growth slowdown in 1998. Thailand, Indonesia and Malaysia in fact endured sharp absolute falls in their GDP in 1998, and slower economic growth thereafter.

The causes of the crisis of 1997/98 remain a hotly debated topic in Southeast Asia, and much controversy remains about the appropriate policy lessons to be drawn from it. After the Asian crisis, a number of economists have stressed the dangers of ‘premature liberalisation’ of the capital account of the balance of payments in the context of small open economies in the modern world. It has been argued that Indonesia, Thailand and Malaysia, which had few controls on inward and outward capital flows by the mid-1990s, were more severely affected by the crisis than Vietnam which, although liberalising its foreign investment regime, has maintained tight controls over the capital account. Several well-known economists have drawn on the ASEAN experience to question the benefits for developing countries of unrestricted access to global capital markets. In early 1998, the then chief economist at the World Bank, Joseph Stiglitz argued that there may be a case for government interventions to control capital flows. He suggested that the Chilean imposition of a reserve requirement on all short-term capital inflows could be emulated in other parts of the world. On the day the Financial Times carried Professor Stiglitz’ article, the paper editorialised:

The case for early and complete freedom for international capital flows has, unquestionably, been damaged. The world’s leaders must now ask themselves how to maximise the benefits of capital flows to developing countries, while minimising both the number of panics and the damage they do.

36 See Booth, Causes of South East Asia’s economic crisis, for a survey of the literature on the Thai crisis, and also on the contagion to neighbouring economies.
37 Stiglitz, Boats, planes and capital flows.
38 Financial Times (25 March 1998).
Other eminent international economists including Jagdish Bhagwati, a longtime advocate of the benefits of free trade for developing countries, joined in the chorus. In September 1998, the Malaysian government took the bold step of pegging the ringgit to the dollar, and imposing a number of controls on capital movements. Several economists have subsequently argued that these measures led to a more rapid economic recovery in Malaysia compared with either Thailand or Indonesia.

The Asian crisis and its aftermath have caused many citizens in the ASEAN countries to ponder the costs of rapid globalisation, not just of financial markets but also of markets for goods and labour as well. Many fear that free flows of goods, labour and capital will lead not just to much greater macroeconomic instability, but also to increasing income inequality. Although some economists were critical of the liberal economic strategies pursued in most ASEAN economies well before the crisis broke, and especially of their distributional outcomes, there was little political will to alter them. After 1997/98, that may now change. Certainly we cannot rule out anti-globalisation backlashes throughout the ASEAN region, which in turn could lead to less open trade and investment policies as well as much stricter curbs on cross-border labour flows. Such policy changes may well be popular with increasingly vocal electorates, and could indeed have some positive results in the short term. But in the longer term their consequences, both for growth and for living standards, are at best uncertain. The evidence of ASEAN economic development in the twentieth century indicates that long periods of ‘de-linking’ from the global economy could be very damaging.

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40 Athukorala, Capital account regimes, discusses the Malaysian experiment with capital controls and also its applicability to other developing economies.


