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The Future

Over the past centuries, South-East Asia has served as, variously, a supplier of luxury goods to the lands to the north and the west, a centre of production of raw materials and resources needed by industrialised countries, a low-cost manufacturing centre, and a supplier of capital and investment, most especially to mainland China. Through all the various phase of its development, South-East Asia's economy has had one common feature: it has been largely based on exports. Unlike China, the United States or Western Europe, the internal market alone has never been enough to fuel strong economic growth.

Now, South-East Asia is approaching a new turning point. Can these countries continue to survive by exporting? Or can they carve out a new economic role for themselves which features a greater emphasis on self-reliance and sustainability? What role might the Overseas Chinese play in these developments? It is, of course, impossible to predict the future with any degree of reliability; no one can tell what South-East Asia will look like in fifty years time, or thirty, or ten. What we will try to do instead is identify some important trends, and then offer views as to what options might exist.

As noted earlier in this book, the balance of economic power between South-East Asia and China has changed. The Asia crisis showed how China, no longer heavily reliant on South-East Asian capital, was in turn able to help shore up the region's tottering economies. That case is even more true now, ten years later. Direct investment in China from the United States and Western Europe has increased dramatically. Chinese companies are raising foreign capital by listing on the stock exchanges of New York, London and other European centres. Indeed, Chinese capital has begun to flow back out of China, and big Chinese businesses are buying up Western

companies and Western brands. The sale of its personal computer division by IBM to Legend turned the Chinese company into the world's third largest personal computer maker and gave it a global presence. This is just one high-profile example; there are many others.

This is not to say that China no longer needs investment from South-East Asia, or no longer welcomes it. It is simply that, as noted, the balance of power has changed. The Chinese economy has grown to such an extent that it now has an impact outside the borders of the People's Republic. Manufacturing is another case in point. In the late 1990s, the Chinese demand for manufactured goods seemed insatiable. So-called 'white goods' – refrigerators, freezers, washing machines and the like – were a major import. Ten years later, the market is saturated; there are hundreds of manufacturers inside China, so many that they in turn are being forced to export in order to survive. And these Chinese-based companies generally have lower wages and lower costs, and can compete very favourably; so much so that the World Trade Organization has had to act to prevent Chinese exporters from dumping cut-price goods and flooding the market. The same problem has occurred in textile markets, another area where South-East Asian firms had once had a competitive advantage. The spreading problem is affecting many manufacturing sectors, especially household and consumer goods.

Thus the relationship between the Chinese of the People's Republic and their overseas cousins is changing, and changing rapidly. China is on course to become one of the world's major economic power centres. Perhaps by as early as 2030, the Chinese economy will overtake that of the United States in terms of size. But long before then, China's economic influence will have spread around the world. Indeed, it is already doing so. And further, the Chinese government is very well aware of the country's growing economic strength. Not unnaturally, Beijing will try to extract advantage from this strength. The impact of the rise of China's economy is already being felt in South-East Asia, where as we noted earlier, China is increasingly making its presence felt in the councils of ASEAN and other regional economic bodies. Despite scare stories in some parts of the media, there is no suggestion that China is seeking political domination of South-East Asia; politically, the Chinese government still has its hands full at home. But the economic relationship between China and its South-East Asian neighbours is increasingly being shaped by China.

What might China need from South-East Asia over the next several decades? Despite China's growing economic clout, her development

has been uneven, and large areas of the centre and west of the country still require modernisation and development. The Overseas Chinese will continue to find investment opportunities in China for some time to come, though they are increasingly competing with Western capital – and domestic Chinese capital – for these opportunities. And despite the rapid growth of higher education and the thousands of young Chinese going abroad to study in universities and business schools, there is also a continuing need for talented and experienced business managers. China's universities may be producing graduates at an unprecedented rate – so much so that there are fears of job shortages and unemployment among graduates – but the quality of their education is not always as high as it might be, and most lack experience of work and life outside of China. The managerial skills and greater experience of the Huaqiao business community mean that there will be a steady traffic of people going to and fro between South-East Asia and China for some time to come.

This increasing flow of people has incidentally highlighted the curious relationship that many Overseas Chinese have with the mother country. The current generation includes many whose parents, grandparents or great-grandparents fled China during the turmoil of the 20th century. Many still have family living in China. In interviews, they often express a strong sense of Chinese identity, and a desire to go back to the mother country one day, if only to locate surviving relatives. Yet when they do go back, many have mixed feelings. They find it hard to adjust to being in China; there is enough cultural dissimilarity between China and their own countries that they do not feel at home there. This is true even of people from Chinese ethnic groups with a very strong identity, like the Hakka or the Hui. Some who go back to China do not remain there for long. Indonesia or Malaysia or the Philippines may be lands where they are regarded as foreigners, yet for many Huaqiao, these lands feel more like home than does the mother country. This phenomenon is well-attested by many surveys and studies and Westerners are advised to remember that for all the strong cultural affinity between Overseas Chinese and China, there is often a distance between them as well.

Another import which China is likely to require in increasing quantity from South-East Asia is food. It is generally agreed that China's population is starting to stabilise. Exact figures are hard to determine, but it seems likely that the population will level off at a little over 1.3 billion before beginning very gradually to decline. But that is still a colossal number of people to feed. Further, it must be remembered

that while China is the third largest nation by land area in the world, the majority of that land area is not suited to agriculture. And the fertile plains of the east, and the valleys of the Yangtze and the Yellow Rivers, China's traditional breadbasket, are also the areas that have seen the greatest growth and industrialisation. Productive agricultural land has been lost to housing, factories, highways and power stations. At the same time, though, mechanisation is improving farming outputs, and the danger of a 'Malthusian crisis' would seem to be passing.

However, it is a near universal trend that as countries become more affluent, its citizens consume more food per capita, and also demand a wider and more interesting variety of foodstuffs. In particular, meat consumption tends to rise markedly. This will happen in China; indeed, it is probably already happening. Food imports into China will almost certainly rise over the coming several decades, and much of this food will come from the rich, intensively farmed lands of tropical South-East Asia. Food has already been a major export from Thailand for several decades; it will be remembered that Thailand's first multinational company, Charoen Pokphand, began as an agrobusiness, and a good part of that business consisted of exports to China.

The People's Republic of China has a fairly rich range of natural resources, and is discovering and exploiting more, but its growing economy still requires imports of raw materials. It is not inconceivable that South-East Asia could again become an important exporter of mineral ores or tropical hardwoods, for example, but this time to China instead of to the west. The most important natural resource in the region, however, is oil. Chinese companies are already taking stakes in oil exploration ventures throughout the region. Rumours of large oil deposits in the southern reaches of the South China Sea have already prompted a certain amount of diplomatic scuffling between China and its neighbours, particularly the Philippines, Indonesia, Malaysia and Vietnam, all of which are nearby (there is a similar dispute with Japan over oil deposits in the East China Sea). Chinese interests here are concerned not only with securing oil resources for China itself, but with finding oil deposits that can be tapped and exported elsewhere. As with many other industrial sectors, China has a desire to take a hand in the global oil game.

Finally, just as Japan did in the 1980s, China needs markets for its exports. The affluent middle classes of South-East Asia offer such a market, and if the region remains stable and prosperous, then that market will grow. Chinese manufacturers hope that South-East Asian

consumers will feel greater cultural affinity for their products and brands and will buy them in preference to Western brands. Whether they will do so in sufficient numbers remains to be seen, and Western brands do still have quite significant cachet. What does seem certain is that South-East Asian manufacturers will increasingly feel the pressure of Chinese competition.

One way and another, it seems inevitable that the nations of South-East Asia will grow closer to China, and that China's economic dominance will increase in line with its growing global economic power. There are dangers here. If Chinese economic domination becomes too visible, the indigenous population might begin to feel threatened, particularly in countries like Indonesia where there is a history of friction between the communities. But more generally, the rise of China poses both a challenge and an opportunity to all the countries and peoples of South-East Asia. Can they use China's growth to their own advantage? Might China's development prove a spur to the wider development and growth of the region? Can South-East Asia effectively ride China's coat tails to greater peace and prosperity?

Any answers to these questions would seem to necessarily involve the Overseas Chinese community, whose importance as a link between China and South-East Asia must surely increase. Once again, it seems, the Huaqiao will be called upon to play their role as middlemen, as conduits for capital and trade and skills in whatever form these are required.

But the answers also depend on political events as well as economic ones, and there are plenty of clouds on South-East Asia's horizon. The divide between rich and poor nations, and the income and educational inequalities within some nations, are compounded by political instability, terrorism, the threat of pandemic and, more generally, economic systems which still lack structure and transparency and where planning tends to be haphazard. In order to prosper in the 21st century, South-East Asia needs to get its house in order.

The divide between the rich, or comparatively rich, nations of the region, and the poorer nations is quite staggering. In Singapore, per capita incomes are as high as anywhere in the developing world. In Malaysia, Thailand and parts of Indonesia, these have been rising also. These are countries where, in the cities at least, the signs of affluence are immediate and obvious. But Burma and Laos and Cambodia remain locked in poverty. History shows that when rich nations and poor ones exist side by side, there is a strong risk of conflict. Reform and recovery in these damaged and backwards countries must be a priority, and the

better-off nations of South-East Asia will have to realise that they have a role to play here, not just in terms of investment, but also providing skills, expertise and markets. Organisations like ASEAN can help to smooth out disputes and ensure that diplomatic friction between nations is kept to a minimum. In South-East Asia, as pretty much everywhere, peace and prosperity go hand in hand.

Even more critical is the problem of income inequalities within nations. Every country in the region suffers from this to a degree. The problem is perhaps most visible and most acute in Indonesia and the Philippines, where there is a great deal of wealth concentrated in a few small areas: northern Luzon in the Philippines, Java and eastern Sumatra in Indonesia. Both countries have their high-tech industrial parks and gleaming office buildings, and both have tens of millions of people living well below the poverty line. In part this problem is one of geography; both nations are island groups, and there has been a tendency for wealth to be concentrated on the island where the capital city and main economic centre is located. But this concentration is not inevitable, and sound economic planning and policies to bring development to the outer regions could make an impact. Other countries suffer from the same problem. Northern and eastern Burma are, if possible, even more backward and undeveloped than the southern Irrawaddy delta. Apart from its beach resorts, southern Thailand, in the Isthmus of Kra and beyond, also lags behind Bangkok and the centre, and this is a causal factor in the simmering discontent to be found in the south. The interior highlands of Vietnam are lagging behind the coast. Of course, uneven economic development is a problem everywhere, and contemporary Britain and America have the economic 'black spots' and regions afflicted with poverty. But the divide is sharper and more obvious in South-East Asia, and because of this, when tensions do arise, violence is more likely to be the result.

Like many parts of the world, South-East Asia has been affected by terrorism. Although nearly half the world's Muslims live in the region, they are for the most part a peaceful people. The Moro independence movement in the Philippines, which has waged several violent campaigns against the government, is based in the Muslim population, but in the past the conflict here has been more a result of ethnic differences rather than religious ones. Sufism, the mystical branch of Islam which emphasises personal purity and knowledge through inner belief, has been the dominant force in Islam in South-East Asia since the faith first arrived there. The Wahhabi movement, the small radical group which believes that force is a legitimate means of extending Islamic

influence and advocates the overthrow of non-Islamic governments, has had very little influence there. However, as the Bali nightclub bombing in 2003 and other incidents since have shown, it only takes a few determined radicals to create violence and mayhem. It is heartening that the Muslim-dominated governments of Indonesia and Malaysia are firmly opposed to the militant radicals and have cracked down hard on them. But there are also concerns that if the crackdown is too hard, a backlash could ensue. In Thailand, bungled military operations against a few disaffected Muslim insurgents in the south have brought a huge wave of support for the latter, among people who would not normally support an insurrection. The situation in southern Thailand is now becoming tense, and Muslim insurgents were blamed by the Thai army for a series of bombs in Bangkok late in 2006. Both sides find it convenient to invoke al-Qaeda and the Wahhabi movement more generally; the Thai army to show it is fighting against global terrorism, the dissidents to give themselves legitimacy and to appeal for outside help. In fact, as in the Philippines, the roots of the conflict are ethnic rather than sectarian.

The threat posed by H5N1, or bird flu, continues to hang over the region. The World Health Organization estimates the chance of a global influenza pandemic before 2011 at 100%. In other words, the WHO believes that it is not a question of whether such a pandemic will happen, but when. The pandemic may not necessarily be H5N1, although it is the most likely candidate. But all the great killer epidemic diseases of the past – typhus, cholera, bubonic plague – have spread from animals to humans in conditions where the two live in close proximity, and what is more, most have originated in South-East Asia, where the hot and humid climate provides ideal breeding grounds for viruses. So, if the WHO is to be believed, the next great global pandemic is now in preparation, and South-East Asia is a likely starting point. Certainly H5N1 is still alive and well there. Pharmaceuticals companies around the world are frantically trying to create antiviral drugs that will stop it, but experienced epidemiologists point out that antiviral drugs cannot be engineered overnight, and that H5N1 has so far shown itself able to evolve and mutate drug-resistant strains faster than the scientists can invent new drugs. The problem has been compounded by Indonesia's decision in 2006 to stop sharing medical information with the WHO; there are rumours of a partnership deal with a Western pharmaceutical company which wants exclusive rights to a new antiviral drug said to be in preparation. This is like playing with matches in a gunpowder factory.

If H5N1 does mutate into a strain that can be easily passed between humans, then the consequences could be catastrophic for South-East Asia. The disease itself is likely to make very many millions of people very ill, although current best guesses are that the death toll might be fairly low, nothing like that of the influenza epidemic of 1917–19 for example. But even the threat posed by the disease will be enough. In the first instance, quarantine measures will have to be enacted. The serious impact of these can be seen in microcosm in the recent SARS epidemic in southern China, which also briefly affected parts of Canada. Quarantine disrupted travel and trade to a very great extent, and had immediate and negative economic impacts in both countries. One of the biggest threats is to global supply chains. Modern practices of ordering goods ‘just in time’ rather than keeping large stockpiles on hand mean that the export goods on which South-East Asia still depends, car parts, other manufactured goods, textiles, must be able to be shipped as and when required. If quarantines close the ports and airports, then the factories will stand idle, and the people who remain healthy will be out of work. Investment will dry up, and the stock markets will fall, and the crisis will begin again. It would take only a few months of severe quarantine for many economies in South Asia to crash into ruin.

Despite the World Health Organization’s pessimism, this outcome is not inevitable. Preventative measures, taken swiftly, might reduce or even eliminate the conditions in which the virus breeds. More urgently needed still are common mechanisms for control and isolation of outbreaks when they do occur, to keep the effects from spreading through the rest of the region – never mind the rest of the world. So far, there is little sign of such co-operation emerging. Again, pan-governmental bodies like ASEAN can play a role in, figuratively speaking, knocking governmental heads together and bringing about greater co-operation. One thing is certain; inaction on this issue is not an option.

Finally, the continuing immaturity of the financial and economic systems in many countries remains a source for concern. The reasons for this immaturity stem partly from a different business culture, as we noted in Chapter 9, and partly from inertia and lack of understanding, particularly on the part of regulators and policy makers. Honourable exception must be made for Singapore, whose financial markets are as transparent and carefully governed as those of the West. It is notable that the Barings Bank crisis, occasioned by ‘rogue trader’ Nick Leeson gambling away the bank’s assets on the Singapore stock exchange in the late 1990s, had little effect on the exchange itself. This is because

the exchange authorities moved swiftly and promptly to limit the damage and restore public confidence.

But Singapore's success as a financial centre has been due in part to the contrast between it and the countries around it. The lack of transparency and viable regulation in other countries is precisely what has made Singapore a safe haven. Contrast it with the bellwether state, Thailand. The Asian crisis of 1997–8 should have been a wake-up call to the Thai authorities, and to some extent it was. Western consultants were employed to help effect a thoroughgoing reform of the banking system and its legal frameworks, for example. But then the reform effort stalled, as reform efforts in Thailand so often do. The late and not very widely lamented civilian government overthrown by the army in 2006 was said to be riddled by corruption. The Prime Minister seems to have spent more time plotting to buy an English football club than on governing the country. The new military government may be more honest but has little experience at running a modern economy, and foreign investors are increasingly jittery. This is a story which has now been repeated several times, not just in Thailand but in other countries in the region. The lesson, so emphatically demonstrated by Singapore, that peace and prosperity also require stability and an economic and fiscal system based on honesty and trust, does not seem yet to have sunk in.

Reform, then, is still needed if South-East Asia is to come to terms with its future. As we have remarked at several points, politics and economics are very closely bound together in South-East Asia, and economic and political reform need to go hand in hand. With this in mind, let us take a brief look at each country and assess the likely prospects for each.

Two can be discounted almost at once. As long as the SLORC regime remains in power in Burma, no reform is possible. The military government there has set its face rigidly against reform of any kind, and Burma remains locked in a post-World War II timewarp that it looks like it will have to endure for many years to come. And Laos, poor and reliant still on agriculture, appears to have little to offer anyone from outside its own borders. Tourism is picking up, albeit in a very limited way, but will not be enough to rejuvenate the Laotian economy. Nor does it appear that the Vientiane government has either the expertise or the will to propel the country forward. The best hope for Laos is probably economic assistance from a larger neighbour, most likely Vietnam. Such assistance would probably mean Laos losing effective control of its own economy, but this might turn out to be a good thing, at least in the short run.

There may be light at the end of the tunnel for Cambodia. The discovery of significant oil reserves offshore in the Gulf of Thailand offers a productive resource to add to the growing tourist industry. Reliance on oil money is always a tricky thing, but if enough revenues can be ploughed back into economic development, it should be possible to not only alleviate the plight of the country's numerous poor, but begin to develop an infrastructure which might, in turn, attract more foreign investment. The problem that many observers see is whether Cambodia's government will be able to exploit this opportunity successfully. Cambodia's political system remains dominated by the memory of the Khmer Rouge years. Although the country is largely stable and peaceful, there is little appetite for political experimentation, and holding the status quo is a priority. It will take another generation, perhaps, before younger Cambodians free from these memories are able to take their country forward.

Vietnam's government remains communist, but Vietnamese communists from Ho Chi Minh onward have tended to be a pragmatic lot. Although Vietnam's communists were very much within the sphere of influence of Moscow, when the Soviet Union came to an end, Vietnam chose not to follow the rapid reform programme enacted by Russia and many other post-Soviet states. Instead it looked to its neighbour to the north, and the *doi moi* policy has clear and obvious parallels with China's economic reforms. The flow of foreign investment resumed once the Asian crisis had passed, and Vietnam's growth, if unspectacular, has at least been fairly steady. It is now a popular place for Western companies to outsource production, particularly in relatively low-skilled sectors such as the textile industry, where its low wages means it can still compete favourably with China. Vietnam will not become an economic powerhouse, at least not any time soon, but it does offer an object lesson to other states on how stable government can help create the conditions for economic growth.

That lesson, as we have seen, has not yet been learned in Thailand. The present military government has announced that it intends to hand back power to a civilian government once elections can be called. This is good news, but there is no guarantee that the elected civilian government will be able to create stability either. Thailand, on paper, has many advantages; a large population, rich natural resources, a flourishing tourist industry, high levels of skills and education in at least Bangkok and the surrounding areas, and critically, very good relations between the Thai and Chinese communities, who as noted, are often hard to separate. But continuing instability, and especially a rise

in the level of Muslim insurgency, and these advantages could come to nought. Reform and stability are essential if Thailand is to prosper.

Malaysia, after Singapore, is probably the most efficient and effective state in the region. The long-lasting government of prime minister, Mahathir bin Muhammad, had many characteristics, some good and some bad. Among the good, however, were political stability, and an ability to link that stability with economic growth. His ministers showed they could look outside the country and also that they had considerable foresight. The Look East policy may have had its racist overtones, but in encouraging Japanese investment, the Malaysian government made the right move at the right time. The lessons of the Asian crisis were learned, and the Malaysian financial system today earns consistent praise from foreign regulators. Not all is rosy in the garden; foreign journalists write of nepotism and cronyism with government, contracts being handed to favourite suppliers and the like. It is difficult to tell how widespread such practices are. But in general, while the Malaysian system may be less than perfect, it is at least working.

Malaysia faces a problem of a different sort. To some extent, the country has become a victim of its own success. Economic prosperity has brought about rising prices, and rising wages too. Increasingly, the country's exporters are finding it hard to compete with China and India. It is notable that Malaysia has not benefitted from the outsourcing boom to anything like the same extent as, says, China, Vietnam or the Philippines. The challenge facing Malaysia's economic planners now is to find a new basis on which to compete internationally.

Indonesia remains, as ever, difficult to pin down. The Indonesian economy has struggled back to its feet, and successive post-Suharto governments have brought stability, which in turn has encouraged foreign investment. Neither terrorism nor the tsunami appear to have done lasting damage to the economy. But the internal divisions that we spoke of earlier remain more sharply acute in Indonesia than any other country. Nor has Indonesia entirely resolved the role and influence of the Chinese population over its economy. If China does exert a growing influence over the region, and if this provokes new ethnic tensions between Chinese and other peoples in the region, then we may confidently expect this tension to come first and most strongly in Indonesia. And yet, Indonesia needs its Chinese entrepreneurs. If they depart, and take their capital with them, the Indonesian economy will collapse.

With its large population and diverse natural resources and already developed economy, Indonesia could, if things go well, become a

major economic power in East Asia, a certain rival to Japan and able to at least hold its own against the growing power of China. But for this to happen, Indonesia needs a strong programme of internal political, financial and economic reform, and most of all, it needs to prepare the ground for a lasting peace between the Chinese and *pribumi* communities.

There has been slow progress in the Philippines following the shaky start after the end of the Marcos dictatorship. Again, the country has benefitted from a series of relatively stable governments, and although the Moro problem remains in the south, the country as a whole is peaceful. This has helped to bring in foreign investment, and the Philippines has been a prime beneficiary of the outsourcing movement. One legacy of American occupation was a good basic education system with English widely taught. With this advantage, following the Indian example, the Philippines began to market itself as a base for call centres, payment centres and a variety of other business services. Although nowhere near as successful in this regard as India, the Philippines have still done reasonably well. The main problem in the Philippines has been a kind of institutional inertia within government. Economic planning is basic, and there is need for some sort of programme to continue the country's development and take it forward.

That brings us to Singapore, which has not only seen the future but is moving towards it. Singapore's planners realised long before anyone else in the region that reliance on manufacturing was only a phase in the country's economic growth. Wages in Singapore are already too high for there to be much chance of attracting outsourcers in search of low wages and low costs. But in any case, the era of South-East Asia as a destination for low-cost manufacturing may already be on the wane. As we have noted, China can out-compete much of the region on cost. Even more important, new destinations have opened up in Latin America and Eastern Europe. Several European textile firms have recently switched their outsourcing production from Vietnam and Thailand to Turkey, on the grounds that the supply lines are shorter and it takes less time for finished goods to reach Western Europe.

Singapore's new vision of the future has two dimensions. First, of course, Singapore will remain the largest financial market in South-East Asia for the foreseeable future. Second, however, Singapore is now positioning itself as a centre for the creative arts and associated industries. Film-makers, fashion designers, designers and developers of Internet products are all being lured to Singapore by a combination of favourable tax regimes, a strong skills base and excellent

infrastructure. In terms of film-making, there are already plans to challenge Hong Kong's domination of the East Asian cinema market. So successful has the city been at turning itself into an Asian centre of creativity and art that *Time* magazine was moved to describe Singapore as a 'funky town'. The description was meant partly in jest, but there is an element of truth to it. Singapore has shown how it is possible to re-invent an economy in order to adapt to changing circumstances.

And Singapore may also have shown a way for other countries in the region, at least, to those with the desire to reform and develop. Outsourcing will not last forever. Something new is needed, some new direction that will help South-East Asia keep pace with the rest of the world economy. For many centuries, the region has enjoyed prosperity thanks to its ability to export what the rest of the world needs: first luxury goods and medicines and dyes, then raw materials for the West's industrial revolution, then manufactured goods to the developing markets in China. Today, if we are as many commentators suggest in the midst of a 'knowledge revolution' where creative ideas are a key source of competitive advantage, then it follows that there is a high demand for knowledge and creative skills, and that these are becoming increasingly important commodities on the world market. And, thanks to strong indigenous cultures mingled with the influence of Chinese culture, along with very good education systems in part of the region, at least, there is no shortage of either of these things in South-East Asia. It may sound far-fetched, but in an era when Europe is already attempting to position itself as a 'knowledge economy' to compete with the industrial dominance of America, India and China, it should not be impossible for South-East Asia to do the same thing. And as we look to the future, it should not surprise us to see the Chinese entrepreneurs of the region, as they have been for so long, playing the role of middlemen, working with indigenous businessmen and businesswomen to develop the 'creative resources' of the region and export them to markets around the world. In other words, the product may change, but the game will remain the same.