

EMBARGOED UNTIL AFTER DELIVERY

**SPEECH BY MR GOH CHEE WEE, MINISTER OF STATE
FOR TRADE & INDUSTRY AND COMMUNICATIONS
AT THE FIFTH SOUTHEAST ASIA ROUNDTABLE
ON ECONOMIC DEVELOPMENT
ON FRI, 1 MAR 96 AT 8.45 AM**

Excellencies, Distinguished Guests, Ladies and Gentlemen

1. The ASEAN-Institute of Strategic and International Studies has played a useful role in organising international and regional conferences highlighting strategic and economic issues. I am glad to be here this morning to share with you some thoughts on this issue of economic reform which has swept through South East Asia in the last decade.

FORCES DRIVING ECONOMIC REFORMS

2. South-east Asia has witnessed rapid economic growth over the last 10 years. Between 1985-95, the ASEAN-4 countries (comprising Indonesia, Malaysia, Thailand and the Philippines) grew by 7% per annum compared with 5.7% per annum over the previous 10 years. Much of this can be attributable to the economic reforms undertaken by these countries.

3. There are a number of factors driving economic reforms. First is the trend of globalisation of production by MNCs. Advances in technology and transportation have led to lower transportation and

telecommunications costs. With lower costs, companies find it more cost-effective to site their operations in other countries to take advantage of the lower cost of production and the larger markets there.

4. A second factor is the demonstration effect of success stories of the NIEs and correspondingly, the failure of the centrally planned or tightly controlled economies to deliver material progress. Countries realised that they had to depend on external capital to finance development. Governments have therefore undertaken reforms to attract investment, expand exports and improve efficiency. There is greater reliance on the market mechanism. Even the socialist economies are moving towards a market economy.

5. Countries also realised that old economic structures based largely on primary commodities were not providing enough growth opportunities. This was brought home sharply in the mid-1980s when their terms of trade worsened. The substantial decline in oil and commodity prices between 1982-86, resulted in a significant deterioration in the terms of trade for the ASEAN countries. Prices of non-fuel primary products (in current US dollars) fell by 7% in 1981 and a further 12% in 1982. In addition, petroleum prices fell from about US\$39/barrel in 1981 steadily to reach a low of US\$15/barrel in 1986. These external shocks on the economy were severe for the commodity-based ASEAN economies. The financial and budget burden of the inefficient state-owned enterprises which were masked during the commodity boom period in the 1970s were starkly revealed. These gave the impetus to the political will for liberalisation.

ECONOMIC REFORMS IN SOUTH-EAST ASIA

6. As a region, ASEAN is committed to economic liberalisation. Each member country will reduce tariffs for almost all products (except general exclusions and sensitive items) to 0-5% by the year 2003 to achieve the AFTA (ASEAN Free Trade Area) target. The seriousness of the commitment can be seen from the recent decision to accelerate the implementation of AFTA from the initial target of year 2008 to 2003. The ASEAN Economic Ministers have also agreed to include all unprocessed agricultural products into the CEPT (Common Effective Preferential Tariff) scheme. In addition, member countries are developing work programmes on eliminating non-tariff barriers.

7. In services, ASEAN countries have also agreed on the need to improve regional co-operation in the area of services so as to enhance the competitiveness of ASEAN service suppliers as well as to liberalise trade in services. A free trade area in services in ASEAN will complement the achievement of AFTA which is a free trade area in goods.

8. Individually, each ASEAN country has also undertaken various economic reform programmes to improve efficiency and compete for foreign investment. For example, Indonesia has implemented a number of deregulation packages over the last few years. It aims to raise US\$ 290 billion of private sector investment over the next 5 years to support a growth of 7.1% per annum over its sixth 5-year development plan (1994-1999). Various sectors which were previously

closed have been opened for joint-venture investment or 100% ownership, eg, in road transport, water and power generation.

9. Malaysia has substantially improved its investment climate since the 1985 recession. Equity and employment requirements were liberalised and a more generous corporate tax relief was given, particularly for export-oriented firms. The corporate tax rate has been lowered progressively over time to 30% in 1996 to improve competitiveness. A number of import tariffs has been reduced or abolished to promote competition, lower costs and ease inflationary pressures. It has also promoted the development of the services sector like port and financial services.

10. Thailand stepped up its liberalisation policies in 1987 under its sixth National Economic and Social Development Plan. Attention was focused on tax reform, trade liberalisation and financial liberalisation. These reforms have been accelerated in recent years to support Thailand's plans to become a regional centre for finance, trade and tourism.

11. These economic reforms have brought substantial benefits. ASEAN countries have experienced large inflows of foreign investment since liberalising their economies. The amount of approved foreign direct investment in Indonesia in 1995 was 47 times the value in 1985 while in Malaysia it was 10 times that in 1985. The economic structure of these economies have also shifted from dependence on agriculture

and other primary commodities towards manufacturing. Economic growth has picked up, with an improvement in the standard of living.

IMPACT ON SOCIAL AND POLITICAL INSTITUTIONS

12. However, along with economic progress, new problems have emerged. There are frequent complaints by businessmen and investors of non-transparent business environment, unpredictable changes in policies and charges of corruption. At the same time, there are legitimate concerns among host countries of the social ills of rapid economic reforms, like income disparities, environmental degradation and undesirable activities like prostitution and gambling.

13. It must be noted that economic reform and development is not just a commercial transaction, but a social process. There is an urgent need to ensure that the social and political infrastructure keeps up with economic development so that economic development can be sustained and can result in long-term benefits to the people.

SINGAPORE'S EXPERIENCE

14. I will share some of Singapore's experience on this subject.

Sanctity of property rights and contracts

15. First, Singapore is fortunate to have inherited the British legal system and its emphasis on sanctity of property rights and contracts. We have adopted this system with some minor modifications to suit the circumstances in Singapore. Business disputes are arbitrated and

settled in the law courts. No one is above the law and all criminal activities are investigated. We do not hesitate in taking tough action against violators whether in cheating or corruption cases. Our policy and actions engender confidence in the system and makes Singapore attractive to investors. More importantly, social order adds to the quality of life.

Pro-business, market-oriented environment

16. Second, the Singapore Government has been pro-business. Rules are transparent and, above all, predictable. Notice is given for changes that affects businesses. This provides certainty to businessmen and allows them to plan ahead. An example is the implementation of the Goods and Services Tax. It was announced more than one year before implementation.

17. Singapore relies heavily on the market mechanism in business transactions. We adopt an arms-length and rational treatment for all sectors. We do not offer special protection to government-linked companies. They are run on purely commercial principles to ensure efficient use of resources. This is the best way to resolve policy trade-offs among different groups. Otherwise, interest groups may form among local enterprises to pressurise the Government for protectionist schemes that work to the detriment of consumers.

“Stakeholder society”

18. A number of politicians in the Western countries have recently advocated a “stakeholder society”. Some people are disappointed that as businesses pursue their profit motives, wages and job security of workers have been sacrificed. The US Labour Secretary, Mr Robert Reich, has even called for a tax penalty on firms that fail in their responsibility to maintain jobs when companies globalise their operations in search of lower production costs in other countries¹.

19. While we do not agree with Mr Reich’s idea, we have our own form of stakeholder capitalism. The fruits of economic progress have always been returned to the people in the form of a high standard of public amenities, subsidised public housing of good quality, and investment in education and health. We have a social security system based on personal responsibility called the Central Provident Fund.

20. Budget surpluses due to our prudent fiscal policy are returned to the people by way of various asset enhancement schemes. One of these is Government co-financing of renovations and retrofitting of older public housing units. In early phases of the programme, the Government paid up to 90% of the cost. This “upgrading” programme helps to preserve older neighbourhoods and prevent them from turning into slums. Owners even enjoy substantial capital appreciation as their retrofitted units are very popular with buyers.

¹ Economist, 10 February 1996.

21. Under the share ownership scheme, grants are given to citizens to enable them to purchase shares of state-owned enterprises as they are privatised. We started doing this in 1993 with the privatisation of Singapore Telecoms.

22. The model we have adopted has worked well for Singapore. Our objective has always been to combine high economic growth with social stability and a sense of participation in national life. But we cannot afford to stand still. We have to keep our antennae tuned for changes in the environment and fine-tune our tactics or even strategies over time as circumstances change.

23. I am sure all the other ASEAN countries also face the similar challenges of the changing aspirations of their citizens as the country develops.

CONCLUSION

24. The future of South-east Asia is very bright as all countries in the region embark on ambitious economic and social development plans. This Roundtable will be very useful for policy makers and thinkers to exchange views and experiences. The choice of the theme "Economic Reforms and Implications on Social & Political Institutions" is most pertinent to countries in the region at the current stage of development. I wish you all a most productive and fruitful discussion.