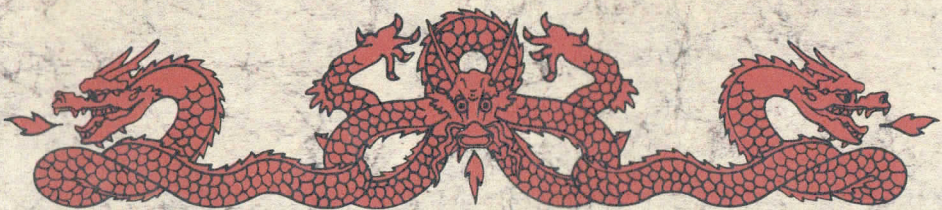


# Asia's New Little Dragons

The Dynamic Emergence  
of Indonesia, Thailand,  
and Malaysia



STEVEN SCHLOSSSTEIN

Author of *The End of the American Century*



PERDANA  
LEADERSHIP  
FOUNDATION  
YATSIAN  
KEPERMANTHAN  
PERDANA

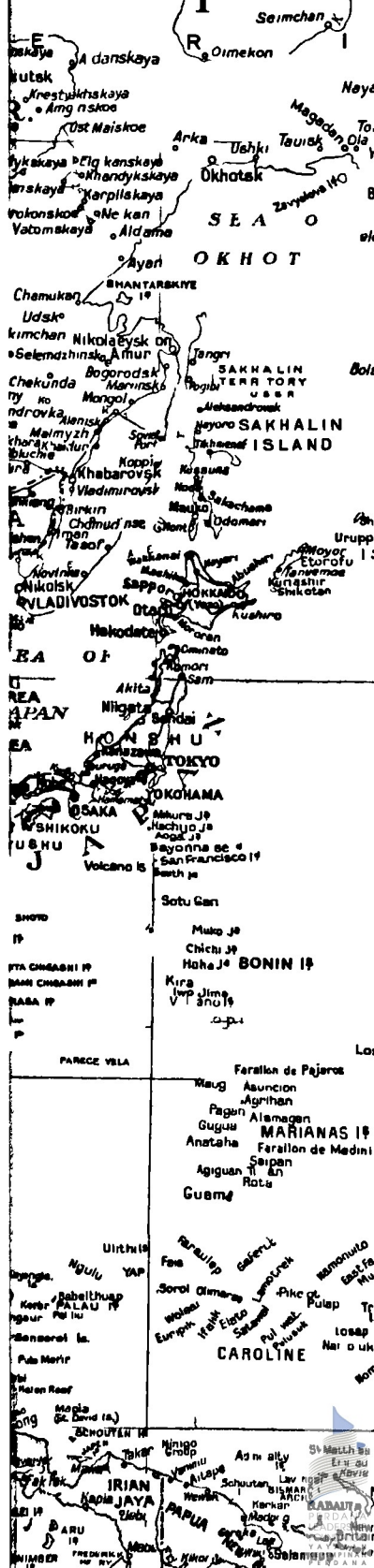
In the 1970s and 1980s, in the wake of Japan's stunning postwar growth, the "Little Dragons"—South Korea, Taiwan, Singapore, and Hong Kong—prospered as well. Will Indonesia, Thailand, and Malaysia follow suit and become the Little Dragons of the 1990s? If so, what strategies and public policies should the United States adopt in response to these booming economies—and in response to the influence of the Big Dragon, Japan, on the region?

As the West confronts the challenge of a new Pacific Age, these are vital questions, and in *Asia's New Little Dragons* Asian affairs expert Steven Schlossstein answers them by examining both economic and noneconomic aspects of these three emerging nations and reaching conclusions that are always thoughtful and often surprising.

Through lively interviews with top Indonesian, Thai, and Malaysian businesspeople and policymakers, Schlossstein unravels the fascinating complexities of the culture, history, economy, politics, and foreign policy of these three nations, each one unique and little understood by Westerners. He shows Indonesia, the fifth most populous country in the world and a member of OPEC, poised for economic takeoff; Thailand, beset by a gridlocked infrastructure and the growing menace of an AIDS epidemic, in a less certain position despite a homogeneous Buddhist society, high literacy rate, and diversified foreign investment; and Malaysia, an Islamic nation seriously hampered by an unstable political system and extreme racial tensions.

Schlossstein also discusses how Japan is already investing aggressively in these diverse nations, and he suggests specific U.S. strategies for competing in what may soon become Asia's new Little Dragons.

(continued on back flap)







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**For the people of Southeast Asia—  
whose hard work and arduous effort under often  
adverse conditions have produced dramatically  
higher living standards for their children and created  
a model of inspiration and hope for developing  
countries everywhere**



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# PREFACE

Thirty years ago Japan first caught the world's attention through its high-quality consumer goods, its near-neurotic attention to manufacturing detail, and its now-famous "economic miracle." Then, not long thereafter, came the so-called Little Dragons—Korea, Taiwan, Singapore, and Hong Kong—which replicated many of Japan's own commercial and economic successes. Their stories are now familiar, and most Americans have become aware of them—through popular products, new books, and TV.

Less familiar, however, are the stories of Indonesia, Thailand, and Malaysia, three nations that are laying a solid foundation for economic takeoff, yet to appear on the horizon, but already they are registering some of the highest rates of real economic growth in the world. Far removed from the fallout of the Cold War and untouched by America's public policy debates over mainly domestic issues—tax policy and the federal deficit, public education reform, the war on drugs, family policy and welfare reform, urban redevelopment, the repair and upgrading of our infrastructure, affordable housing, health care, the environment—these countries are fighting a quieter battle for higher living standards, for faster economic growth, for the creation of new wealth.

Can another group of countries in East Asia repeat the successes of Japan and the Little Dragons? And why have all the economic achievements by developing countries been in Asia? What policies are being created, and implemented, that consistently enable these Asian nations to succeed? Are there valuable lessons for their counterparts in Latin America and Africa? How much of their success is

attributable to indigenous factors—political, social, cultural, educational—and how much to external developments? Why is Japan giving them such priority attention, while America is not? Will these three potential new Little Dragons, a few years from now, be as familiar to Americans as the four old Little Dragons are today? Or have we seen the end of the phenomenon called newly industrializing countries—the NICs? And what are the implications for American foreign and economic policy—in both the public and the private sectors—if these three nations do continue their explosive growth? Will they have a meaningful role to play in the new information age, and will they be our partners or our foes?

This book is an attempt to answer these and other related questions. It is an outgrowth of several months of research in the field, in the summer of 1989, when I was a visiting fellow at the Institute of Southeast Asian Studies (ISEAS) in Singapore, and its sister institutions in Jakarta, Bangkok, and Kuala Lumpur. During this period of time, from late May through early September, I conducted more than 200 background interviews with senior government officials, local business executives, educators, economists, taxidrivers, and shopkeepers, as well as with American and Japanese expatriates in each of these countries. Without their close cooperation and support, simply put, this project would have been impossible to complete.

Many of the issues raised in this book are not without controversy—opinions expressed about American and Japanese attitudes or policy or personal behavior, insights into sensitive cultural concerns like religion or prostitution or corruption, and observations on the efficacy of the local policy formulation process and the personal chemistry of government leaders involved therein. Understandably many senior Indonesian, Thai, and Malaysian informants preferred to speak off the record or without attribution. But I would like very much to acknowledge their invaluable assistance, as they were helpful in countless confidential, clandestine, and often controversial ways (with interviews, with information, or with introductions). Without their help this book would have been remarkably thin.

On the other hand, many people generously shared their time, their convictions, and their thoughts with me on the record. They are reflected (and named) in the many interviews that follow in the text;

space limitations prevent listing them all here, but they must take credit for making the narrative so human and so lively. They know they have my heartfelt thanks and gratitude, for without their participation, interest, and effort this book would not have been possible.

To the trustees and staff of the Institute of Southeast Asian Studies in Singapore, and to its executive director, Kernial Sandhu—whose friendship, support, and constant encouragement I will always treasure—a special note of appreciation and thanks. ISEAS was (and will forever be) a “home away from home” for me, and I have only the highest praise for its professional standards and achievements.

To the Center for Strategic and International Studies (CSIS), Japan’s Ministry of International Trade and Industry (MITI) representatives (and their voluminous background materials, in Japanese, always detailed and incredibly thorough), the U.S. embassy commercial and political staffs, and the Asia Foundation office, in Jakarta; to the Thailand Development Research Institute, the Institute for Strategic and International Studies, the MITI representatives, both the American and Japanese embassies and Chamber of Commerce staffs, and the Asia Foundation office, in Bangkok; to the Institute for Strategic and International Studies, the Malaysian Institute for Economic Research, the MITI representatives, the American and Japanese embassies and Chamber of Commerce staffs, and the Asia Foundation office, in Kuala Lumpur—my thanks for all their help in arranging introductions, providing valuable background data, and suggesting useful new sources that added considerable depth and perspective to the text.

To Hadi Soesastro of CSIS in Jakarta, Patcharee Sororos at Thammasat University in Bangkok, and Paul Low, chairman of Malaysian Sheet Glass Berhad in Kuala Lumpur, each of whom commented helpfully on early drafts of the manuscript, my grateful appreciation. They know that the opinions and ideas expressed herein are totally mine, and they are absolved of any responsibility for the positions taken (or predictions made) in the text.

To the research staff at the ISEAS Library (whose Xerox copiers achieved new levels of output during my stay), to the staff at Princeton University’s Firestone Library, and to the reference librarians at the Princeton Public Library—especially Jane Clinton and Eric Greenfeldt—special thanks, as ever, for special help.

To my agent, Dominick Abel, who is a gentleman in an often curmudgeonly business; to my publisher, Harvey Plotnick, a man of vision who senses trends (and leverages them) as well as anyone in the industry; to my editors, Bernard Shir-Cliff and Kathy Willhoite, who offered valuable suggestions that have made the text more accessible to the general reader; and to my manuscript editor, Christine M. Benton, who brought her usual high standards of professional performance to bear on both style and content—you each played a strong role in making this production successful, and you have my most grateful appreciation and deepest thanks.

Finally, to my wife, Marty, and our children, Claire and Peter, who shared so many of these experiences during our lengthy stay in Southeast Asia, my heartfelt gratitude and love for making our peripatetic family so strong, so flexible, and in the end analysis so durable.

Despite the generous assistance, advice, and guidance I have received from one and all, including those who preferred to remain anonymous, I alone remain responsible for the interpretations, opinions, and judgments rendered throughout the text, and any errors resulting therefrom are of course my own.

Princeton, New Jersey  
January 1991

# Asia's New Little Dragons





# 1

## INTRODUCTION

### Of Dragons Old and New

*The copycat days are over. Japanese industry is well on the way to becoming not just self-sufficient in technology, but a big exporter of know-how, as well. Its engineering laboratories are brimming with ideas that have been cultivated entirely at home. Japanese firms now have a virtual stranglehold on the technologies for making cars, cameras, semiconductor memory chips, video equipment, fiber optics, machine tools, industrial robots, flexible manufacturing systems, quality steels, and composite materials. Japanese firms are responsible for almost half of the patents being filed around the world. All this, and they are only just getting into their stride.*

*In the process, Japanese industry is being remade. Since 1986, Japan's economic growth has come exclusively from domestic demand; net exports have [declined as] imports have risen on the back of a soaring yen. Japanese firms have hastened the process along by exporting their know-how to subcontractors in South Korea, Thailand, and Taiwan, who then manufacture the goods for them and stick on Japanese labels. [This] new direction suggests a shift from the export of products to the export of software and services, centering on advanced technology.*

—Nicholas Valéry, "Japanese Technology:  
Thinking Ahead," *The Economist*

During the past two decades, close on the heels of Asia's economic miracle—Japan—the world has witnessed the explosive growth of South Korea, Taiwan, Singapore, and Hong Kong, East Asia's so-called Little Dragons, whose aggressive export strategies, close

government/business cooperation, strong public education systems, high rates of savings and capital formation, and soaring personal incomes have put American firms under increasing competitive pressure and have caused the United States to rethink its own neoclassical economic theory and free-trade philosophy.

For the past twenty years the Little Dragons have generated the highest rates of growth in the world, with the annual average at 9 percent compared with nearly 5 percent in Southeast Asia, less than 4 percent in Latin America, under 3 percent in Africa, and just over 2 percent for the United States. Most recently, for the five years from 1983 to 1988, their average growth rates were nearly in double digits: 10.2 percent for Taiwan, 9.5 percent for Korea, 9 percent for Singapore, and 8.1 percent for Hong Kong. What's more, these four countries *alone* accounted for almost two-thirds of *all* manufactured goods exported during that time. Together with the front-runner, Japan, two of them—Korea and Taiwan—had amassed nearly \$200 billion in official foreign exchange reserves by 1988, around four times the U.S. level and nearly half the world's total, and the same three countries accounted for about two-thirds of America's total global trade deficit.

In fact the economic growth rates of the Little Dragons have been so strong—with their export strategies so aggressive and their per-capita incomes so high—that Washington has taken an increasingly harsh view, reacting with protectionist sentiment rather than attempting to adjust and adapt to these new forms of Asian-Pacific dynamism. But contrary to popular perception, the Little Dragons were not exporting just to America. By 1988, while some 30 percent of Korea's trade was with the United States, more than 25 percent was with Japan; Taiwan was shipping about a third of its exports to America but more than 20 percent to Japan; Hong Kong was sending 18 percent of its exports to the United States, but 12 percent to Japan; and 19 percent of Singapore's exports were going to the United States, but 15 percent to Japan. The best-kept secret of East Asian growth is that trade *within the region* now constitutes nearly half of its total: intraregional trade among the Little Dragons themselves exploded by almost 50 percent in 1988.

By early 1988 Washington had graduated all four countries from its Generalized System of Preferences (GSP), which previously gave certain of their exports preferential tariff treatment. In mid-1988

Representative Richard Gephardt of Missouri, an early Democratic candidate in the presidential primaries (and now majority leader of the House), called for punitive tariffs against Korea's automobile exports to reduce their price competitiveness in the United States. And throughout 1989 America's trade officials pressed both Korea and Taiwan to "open" their markets further to American products, such as cigarettes and farm goods, creating an unprecedented amount of anti-American sentiment in these countries.

In the meantime some observers of these trends have argued that the strategies and tactics used by the Little Dragons cannot be sustained. That their success is a limited, one-shot achievement that cannot be replicated. That America will not be able to keep its market as open as it has in the past if these sorcerer's apprentice economies cannot learn to control their aggressive behavior. "It is time to ask," one analyst noted, "whether any more developing countries can really hope to become the South Korea of the late 1980s or the Hong Kong of the early 1990s."

But right behind the four Little Dragons are three *more* East Asian economies—Indonesia, Thailand, and Malaysia—sitting on the runway revving up for takeoff, expanding at double-digit rates of growth since 1986 or 1987. Thailand's growth has been so rapid that its physical infrastructure—roads, highways, and port facilities—has become saturated to the point of gridlock as more and more Thai manufactured exports head for foreign markets. Indonesia, in a period of less than three years, had a *higher* percentage of exports in manufactured goods by 1989 than it did in gas and oil, and this from a country which is a member of OPEC. Malaysia, in addition to being the world's number-one exporter of palm oil, rubber, and tin, is today the world's leading exporter of computer chips and the third-largest manufacturer of semiconductor devices overall after Japan and the United States.

Why has this been happening? How have three more East Asian nations been able to achieve rapid economic development so closely on the heels of their northeastern neighbors, while the sluggish economies of Latin America and Africa remain heavily burdened with debt, severely shackled by inflation, deeply mired in socialist ideology, and firmly entrenched as spectators of rather than participants in the international trading system that the dynamic nations of East Asia have so successfully mastered?

“The more one probes the magnificent archipelago of Indonesia, with its uncompromising beauty, its rich storehouse of natural resources, and its incomparable depth of human talent, the more one comes away with the sense that for Indonesia the best is yet to come.”

“Thailand has been increasingly singled out as the next Little Dragon. But against its extraordinary strengths, Thailand has a veritable abundance of shortcomings—a long list of liabilities that could eventually cause the Thai economy to stagnate and fall behind its regional competitors.”

“Malaysia’s bottom line is that it should have done much better. With its political system corrupt to the core, its people suppressed by a government that is moving ever closer to totalitarianism, and its social stability threatened by clearly racist policies, Malaysia is a nation with an inferiority complex.”

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Can Indonesia, Thailand, and Malaysia repeat the successes of Japan and the Little Dragons of the 1970s and 1980s? What policies are being created and implemented to enable these Asian nations to succeed? How much of their success is attributable to indigenous factors—political, social, cultural, educational—and how much relies on external developments? Why is Japan giving these three potential new Little Dragons priority attention, while America is not? What are the implications for American foreign and economic policy—in both the public and the private sectors—if these three nations continue their explosive growth? Will they be our partners or our foes? This book answers these questions and provides a framework for action.

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