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Southeast Asia

Regional development in Southeast Asia: the challenges of sub-national diversity

Hal Hill

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Research School of Pacific and Asian Studies ANU

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Published by the National Centre for Development Studies

Printed in Australia by Better Printing Service,
1 Foster Street, Queanbeyan, NSW, 2620.

The Economics Division acknowledges the contribution made by the Australian International Development Assistance Bureau towards the publication of this working paper series.

ISBN 0 7315 2324 5

ISSN 1038-412X

Key to symbols used in tables

n.a.	**Not applicable**
..	**Not available**
-	**Zero**
.	**Insignificant**

All $ are US$

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Abstract

Regional, in the sense of subnational, development is all too frequently ignored in assessing the socioeconomic performance of countries. Yet in an era when nation states are under challenge as never before, it is important to include the regional dimension in any such assessment. This paper addresses the issue with reference to four Southeast Asian economies. These countries provide an excellent laboratory for an examination of regional development performance and policy issues, given their ecological and economic diversity, and the range of policy approaches employed.

*r*egional development in Southeast Asia: the challenges of sub-national diversity

Introduction

The regional dimensions of development in ASEAN (the Association of Southeast Asian Nations), as elsewhere, are significant for a number of reasons. First, ASEAN contains some of the most heterogeneous countries in the world. Indonesia is the world's largest archipelagic state, while the Philippines arguably ranks second in this respect. The interregional differences in these two countries are enormous, ranging from highly industrialised cosmopolitan cities to subsistence economies into which the twentieth century has barely intruded. Such differences are evident in Malaysia, between West Malaysia and the resource-rich 'frontier' states of East Malaysia, and within the former between the more developed industrial and service economy of the western states and the much poorer eastern and northern states. Even in Thailand, a relatively compact land-based state with no ocean divide, there are pronounced regional divides, especially in the contrast between Bangkok, one of the world's major primate cities, and the poor northeast region.

These economies are in one sense the sum of these disparate regions. But for analytical purposes, they are much more than a simple summation. In order to understand the national picture, one needs to understand these regional dynamics. As Higgins and Savoie put it in the introduction to their recent volume,

> Countries, nations, nation-states, and national economies are in fact collections of spaces (regions), each with its own society and its own economic, social, political and power structure. The degree to which these spaces are integrated into a unified national economic, social, political and administrative system varies a great deal from country to country, and these variations go a long way in explaining differences in performance from country to country (1995:3) .

Explaining differences in regional development levels and growth patterns is no simple exercise. Part of the story has to do with the seemingly inexorable growth of capital cities. Typically the capital cities have been in the wealthiest and most powerful regions, and inevitably they attract much of the attention. The presence of natural resources is also a factor, as in Kalimantan, East Malaysia, and parts of Mindanao. In addition, there are major urban centres outside the capitals which have performed well even without the benefits of capital city patronage. (Indeed some have occasionally been regarded as strongholds of opposition to the capital's ruling political forces.) For example, three of the most dynamic cities in the region have been Pinang, Surabaya, and Cebu. All have a history as major commercial cities, connected to international trade channels while also serving a hinterland or cluster of islands. Perhaps there is something in the notion that they owe their commercial dynamism to the *absence* of an overwhelming bureaucratic and government presence and, as a corollary, entrepreneurship and initiative have flourished.

Political history is another reason why the issue of regional development is important. Like much of the developing world, Southeast Asia's borders are in part accidents of colonial history. Perhaps, fortunately, the divisions are not as random as they appear to have been in Africa. But, with the exception of Thailand, the ASEAN states have been welded together from a collection of rather arbitrary colonial divisions. If one were to attempt to redraw the map from scratch, with reference to geographic proximity and ethnic homogeneity, for example, the island of Borneo might be one country, rather than the three which currently share this land mass. Sumatra and West Malaysia might constitute a single country, as might the island of New Guinea. Inevitably, in the process of forming these nation states, there have been tensions. In the case of Malaysia and Singapore, of course, this led to dissolution. Indonesia experienced a serious regional revolt in 1957–8, which explains in part why, 40 years later, administrative structures are still highly centralised and regional development continues to receive high priority. The two eastern states of Malaysia only joined the Federation in 1963, and in deference to regional sentiments still retain additional powers. Separatist tendencies are powerful in the southwest Philippines, especially among disaffected Moslem groups. Even in Thailand, communities in the southern and northern extremities have registered their discontent with central authority, although such sentiments are now largely a thing of the past.

Regional administrative structures and development approaches differ significantly among the Four. Indonesia stands out for its highly centralised system. Indeed, despite pressure for reform, there has been virtually no change in centre–region structures over the life of the New Order. Thailand, too, has a largely centralised administrative and political structure. By contrast, Malaysia has a strongly federalist structure, with the two eastern states having additional autonomy, although during the Mahathir administration the power of the centre has increased. The Philippines has experimented with a range of structures, including more central power during the Marcos period, but greater decentralisation since 1986.

Although administrative structures differ, there are some similarities in policy issues and approaches, to be discussed in more detail below. The most important common theme was a renewed interest in regional development, originating in the 1970s. A number of factors appear to have been at work in this reorientation: the upsurge in interest in equity, of which one dimension is regional disparities; concerns about the durability of nation states when central authority was beginning to be challenged world-wide; and a much improved data base which enabled regional problems and challenges to be identified more comprehensively.

More generally, there is an influential view which asserts that highly centralised administration is inherently inimical to sustained development, for such an unbalanced power structure stifles local creativity and initiative and promotes local disaffection. Here also Indonesia, notable both for its diversity and highly centralised governance, is central to this debate. Thus, for example, Booth (1992) poses the question, 'can Indonesia survive as a unitary state?'. Earlier Geertz (1971:19) had argued that '[a]rchipelagic in geography, eclectic in civilization and heterogeneous in culture, [Indonesia] flourishes when it accepts and capitalises on its diversity and disintegrates when it denies and suppresses it.'

As evidence of the renewed concern about regional development, for example, the 1970s in the Philippines was characterised by Pernia and Paderanga (1983) as the 'Regional Awareness Period'. Malaysia's New Economic Policy (NEP), 1970–90, emphasised the goal of reducing regional disparities, as part of its broader objective of ethnic equality. The fact that regional and ethnic inequality were to some extent correlated—that is, the poorer states, especially in the north and east of West Malaysia, were predominantly Malay—underpinned the regional focus. Indonesia's New Order regime turned its attention to regional issues fairly quickly after its successful macroeconomic stabilisation program. The government focus was motivated by an appreciation of the country's unique spatial structure, and the importance of building an integrated national entity. But more direct political considerations also intruded, notably the fact that three of the country's most distant provinces, Aceh, East Timor (officially incorporated in 1976, though still not yet recognised by the United Nations) and Irian Jaya also contained pockets of serious disaffection with Jakarta rule. In Thailand, too, with a history of disaffection in its northern and southern extremities, there was mounting concern at persistent and even widening regional inequality. Government concern was manifested in the Fifth Plan, 1982–86, to which was appended a special Development Plan for Rural Poverty.

Nevertheless, regional planning in these countries has generally lacked coherence, in the sense that many government policies have had unintended yet powerful and certainly non-neutral regional ramifications. High rates of manufacturing protection have unwittingly taxed poor and remote rural districts. Similarly, agricultural intensification programs, particularly in rice, have tended to favour the better endowed agricultural regions. Regulatory restrictions, from transport to agricultural processing, invariably have uneven regional impacts. Well-intentioned programs conceived in metropolitan çentres have often not been suitable to conditions in distant regions. Partial trade liberalisation such as the Singapore-based SIJORI growth triangle, has had a significant impact on the spatial structure of manufacturing in Indonesia and Malaysia. Even measures with an explicit regional focus, such as fiscal relations between the central government and the provincial governments and infrastructure projects, have not always been crafted and implemented in a manner which is consistent with official objectives. Regional policy in all countries has thus been an amalgam of explicit and unintended interventions, with the latter frequently outweighing the former in magnitude. In both governments and academia the issue of what constitutes the most effective form of regional policy remains at least partly unresolved: a 'pure neoclassical' approach which abstracts from spatial considerations—and therefore any explicit attempt at regional policy—altogether? Or what may be termed a 'modified neo-classical' approach, which emphasises the importance of improving the functioning of markets, principally through investments in physical infrastructure, and a neutral centre–region fiscal regime, but which otherwise eschews regional programs? Or, at the other end of the spectrum, a concerted attempt at regional development, through a variety of locality-specific initiatives, together with a needs-based fiscal regime among regions?

The purpose of this paper is to analyse regional outcomes and policy approaches. In the next section there is first a sketch of the regional economies, following the principal administrative boundaries delineated by governments and statistical agencies. Patterns of regional development are examined, including salient features of economic and social structure, and the dynamics of development since around 1970. Then, in the last section, the focus shifts to policy approaches and issues. It examines past attempts at regional planning and development, and assesses options within the framework adumbrated in the previous paragraph.

Regional dynamics and structure[1]

In any overview of regional development, two caveats should be emphasised at the outset. First, the analysis perforce must be with reference mainly to existing

1 The literature on regional development in the four countries is uneven. It is quite well developed, appropriately, in the major archipelagic nations, the Philippines and Indonesia. General surveys and collections on these countries include Lim and Nozawa (1992) and Pernia, Paderanga, Hermoso and Associates (1983) on the former, and Hill (1989), Kim, Knaap, and Azis (1992) together with an extensive specialist literature on regional finance on the latter. The literature on Malaysia is smaller, with Spinanger (1986) and Johari and Chang (1990) among the few serious contributions. I am unaware of any published English-language study providing a broad overview of the issues for Thailand, although there is an extensive local development literature.

administrative boundaries, a consideration dictated by data availability and on occasion by the thrust of government policy. Just as national boundaries are somewhat arbitrary, so too are sub-national delineations. For some purposes, groupings of provinces or states are more appropriate. For example, the island of Java, which contains five provinces, might be considered as one unit if the focus is on population pressure or labour-intensive manufactured exports. But if one were examining issues related to more lightly settled, resource-rich regions, one might want to group together the two states of East Malaysia, the four regions on Mindanao, and the four provinces of Kalimantan plus Irian Jaya and parts of Sulawesi.

Alternatively, in some circumstances the official sub-national boundaries may be too aggregated, especially in highly diverse regions. A good example might be the Philippine region of Southern Tagalog, which ranges from the highly urbanised and industrialised fringe-Manila economy, to the rural island of Mindoro, and to Palawan, which is one of the most remote regions in the country. Finally, in some other senses, it might even make sense to think of some sort of groupings which transcend international boundaries. It is easy to identify numerous such examples: the SIJORI growth triangle; major financial centres (essentially the five capital cities); significant export-oriented cash crop regions (southern Thailand, West Malaysia, Sumatra); or principal centres of export-oriented electronics (Pinang, Singapore, and parts of SIJORI), to name just a few.

In recognition of these alternative regional divides, researchers have experimented with alternative groupings. Thus, for example, Pernia, Paderanga, Hermoso and Associates (1983) find it useful to identify three principal zones in the Philippines: 'central industrial', comprising Metro Manila and the two adjacent regions of Central Luzon and Southern Tagalog; 'traditional agricultural', comprising the rest of Luzon (excluding Cagayan Valley, in the north of the island) and the Visayas; and 'frontier', referring to Cagayan and all of Mindanao. In the case of Indonesia, the provincial economic surveys in Hill (1989) were classified into five groupings, primarily on the basis of resource endowments and location. These were densely populated (Java, Bali, and the southern-most Sumatran province of Lampung); the four resource-rich provinces of Irian Jaya, East Kalimantan, Riau (to which was added Jambi), and Aceh; isolated provinces, the three Nusa Tenggaras (East, West and East Timor); five 'settled' provinces off-Java; and another five sparsely settled provinces. Even these classifications, instructive though they are for policy and analytical purposes, are still somewhat arbitrary. In most of the analysis which follows, data will be presented for the first tier of sub-national divides, which in some cases is the only level for which regional accounts data are available. But it is important to be sensitive to these alternative groupings, and also to the fact that the level of disaggregation in these first tiers varies considerably among the four countries, from Thailand's highly aggregated five divisions, to the finer categories elsewhere.

Table 1 **Indonesian regional indicators**

	Population			Gross regional product, 1991		Gross regional product per capita (national average = 100)			
	Total 1990 ('000)	Density, 1990 (persons per km2)	Growth 1971-90 (per cent)	Total	Non-oil	1991 Total	1991 Non-oil	1971 Total	1971 Non-oil
Sumatra									
Aceh	3,416	62	2.83	7,913	3,349	185	94	89	97
North Sumatra	10,256	145	2.33	12,166	11,725	97	112	147	159
West Sumatra	3,999	80	1.91	3,766	3,766	77	93	83	90
Riau	3,306	35	3.75	15,089	3,327	368	97	610	140
Jambi	2,016	45	3.73	1,553	1,504	63	73	139	151
South Sumatra	6,377	61	3.30	9,016	6,837	117	106	197	164
Bengkulu	1,179	56	4.41	944	944	65	78	84	91
Lampung	6,006	181	4.14	3,642	3,642	49	59	85	92
Java–Bali									
Jakarta	8,254	13945	3.15	26,052	26,052	258	310	228	248
West Java	35,381	764	2.62	36,847	33,315	85	92	81	88
Central Java	28,522	834	1.41	25,980	23,390	75	81	68	74
Yogyakarta	2,913	919	0.83	2,201	2,201	63	75	70	76
East Java	32,504	678	1.28	34,072	34,051	86	104	82	89
Bali	2,778	500	1.43	3,503	3,503	104	124	94	102
Kalimantan									
West Kalimantan	3,239	22	2.52	3,240	3240	82	98	93	102
Central Kalimantan	1,396	9	3.70	1,635	1635	95	114	108	117
South Kalimantan	2,598	69	2.26	2,737	2689	86	102	102	111
East Kalimantan	1,877	9	5.07	12,223	4968	525	256	253	248
Sulawesi									
North Sulawesi	2,479	130	1.95	1,732	1732	57	68	113	123
Central Sulawesi	1,711	25	3.36	1,097	1097	52	63	52	57
South Sulawesi	6,982	90	1.57	5,283	5283	62	75	73	80
Southeast Sulawesi	1,350	49	3.41	976	976	59	70	92	100
Eastern Indonesia									
West Nusa Tenggara	3,370	167	2.26	1,573	1573	38	46	48	52
East Nusa Tenggara	3,269	68	1.88	1,332	1332	33	40	44	48
East Timor	748	50	2.98	328	328	36	43	n.a.	n.a.
Maluku	1,856	25	2.85	1,744	1731	78	93	98	107
Irian Jaya	1,641	4	3.07	2,329	1867	112	108	91	99
National average/ total	179322	93	2.17	218972	186056	100 (Rp '000 1206)	100 (Rp '000 1005)	100 (Rp '000 31.5)	100

Sources and notes: BPS, *Statistik Indonesia*, various issues; *Pendapatan Regional Propinsi-Propinsi di Indonesia*, various issues; Hull,, T.H., 1994. 'Fertility decline in the new order period: the evolution of population policy 1965–90', in H. Hill, ed, *Indonesia's New Order: the dynamics of sociao-economic transformation*, Allen & Unwin, Sydney:123–45., Table 3.5 for infant mortality data.

	Average household expenditure (national average = 100)		Distribution of GRP, 1991 (per cent)				Decline in agriculture-employment share 1971–90 %	Infant mortality rate late 1980s	Percent of population in poverty 1993	Government as per cent of GRP 1991
	1993	1976	Agri-culture	Industry	Manufacturing	Services				
Sumatra										
Aceh	101	137	18.5	64.7	28.0	16.8	16.5	57	13.5	6.0
North Sumatra	97	105	34.2	26.5	18.8	39.3	19.9	59	12.3	8.6
West Sumatra	100	97	31.3	19.2	12.6	50.5	16.2	71	13.5	12.7
Riau	116	106	5.6	81.1	7.0	13.3	16.4	65	11.2	2.0
Jambi	94	117	32.6	22.7	15.7	44.7	11.4	71	13.4	14.6
South Sumatra	90	106	17.8	44.9	20.6	37.3	12.4	70	14.9	8.7
Bengkulu	84	107	37.9	15.3	3.0	46.8	18.9	68	13.1	22.2
Lampung	71	77	39.9	15.6	11.4	44.5	14.7	69	11.6	16.0
Java-Bali										
Jakarta	232	191	1.0	37.9	25.8	61.1	72.2	38	5.7	7.5
West Java	108	107	21.1	39.8	21.6	38.1	39.8	89	12.2	8.7
Central Java	79	85	29.2	31.6	26.2	39.2	24.8	63	15.8	11.9
Yogyakarta	114	105	27.1	18.1	11.6	54.8	19.8	41	11.8	20.1
East Java	87	88	24.6	29.0	21.8	46.4	27.0	62	13.3	10.6
Bali	113	93	33.3	12.0	5.7	54.7	36.3	49	9.5	11.2
Kalimantan										
West Kalimantan	92	115	27.1	24.4	19.2	48.5	17.9	80	25.1	9.6
Central Kalimantan	102	121	35.2	22.8	9.0	42.0	25.4	56	20.9	13.0
South Kalimantan	107	117	25.4	26.3	18.1	48.3	24.2	91	18.6	8.6
East Kalimantan	157	115	8.7	72.1	34.6	19.2	34.3	56	13.8	2.0
Sulawesi										
North Sulawesi	94	89	36.4	12.0	6.1	51.6	18.3	63	11.8	15.8
Central Sulawesi	83	93	41.2	17.2	5.7	41.6	14.5	89	10.5	14.1
South Sulawesi	81	99	42.4	17.0	7.9	40.6	16.3	69	9.0	15.2
Southeast Sulawesi	76	71	40.2	15.6	2.3	44.2	20.2	76	10.8	23.5
Eastern Indonesia										
West Nusa Tenggara	72	90	47.6	11.0	2.9	41.4	21.4	145	19.5	15.0
East Nusa Tenggara	66	77	51.2	7.3	2.0	41.5	11.7	74	21.8	17.5
East Timor	73	n.a.	39.8	18.1	1.8	42.1	14.4	82	36.2	24.0
Maluku	92	83	33.8	26.4	13.3	39.8	22.3	75	23.9	13.6
Irian Jaya	102	n.a.	19.1	55.6	2.5	25.3	n.a.	79	24.2	5.3
National average/ total	100 (Rp '000 527)	100 (Rp '000 56.4)	19.6	41.3	20.8	39.1	24.7	69	13.7	9.0

Table 2 **Malaysian regional indicators**

	Population				Gross total 1993	Regional product[c] per capita (national average = 100)		Average family income (national average = 100)		Distribution of GDP/GRP[c] 1990 (per cent)				Per cent of population in poverty 1990	Population per doctor 1990
	Total 1990 ('000)	Density 1990 (persons/sq.km)	Growth 1970–90	Per cent urban 1993	(RM) million 1978 prices)	1993	1970	1991	1976	Agriculture	Industry	Manufacturing	Services		
West Malaysia															
Industrial Western															
Penang	1,159	1,124	1.84	78	7,677	128	99	110	117	3.2	51.4	46.0	45.4	8.9	1,815
Kuala Lumpur	1,303	5,362	3.71	100	13,065	199		168	210	0	26.2	17.7	73.8	3.8	721
Selangor[a]	2,207	277		79	19,680	146	163	143	146	7.1	60.0	53.6	32.9	7.8	2,280
Negeri Sembilan	684	103	1.58	43	3,351	86	99	93	100	26.1	38.3	32.1	35.6	9.5	2,617
Melaka	543	329	1.31	41	2,558	89	80	95	112	15.4	39.2	32.0	45.4	12.4	2,648
Johor	2,109	110	2.35	50	11,183	95	91	97	102	29.4	33.4	28.0	37.2	10.1	3,145
North Western															
Kedah[b]	1,367	145	1.66	34	4,689	63	67	69	61	37.0	24.6	19.5	38.4	30.0	4,277
Perlis	187	235	28	704	68	68	67	36.9	27.5	23.9	35.6	17.2	3,400		
Perak	2,098	100	1.27	57	8,499	81	99	85	86	27.8	31.5	19.5	40.7	19.3	2,823
Eastern															
Kelantan	1,169	78	2.51	34	2,439	37	47	58	53	24.3	18.1	11.1	57.6	29.9	3,764
Terengganu	757	58	2.98	45	6,645	149	60	72	67	9.8	74.8	8.2	15.4	31.2	4,226
Pahang	1,127	31	3.89	31	4,746	81	98	87	94	34.7	21.9	14.6	33.4	10.3	3,508
East Malaysia															
Sarawak	1,766	14	3.00	40	7,954	84	89	96	84	24.2	49.4	16.8	26.4	21.0	5,175
Sabah	1,535	21	4.36	35	7,285	70	119	108	102	36.7	33.7	8.4	29.6	34.3	5,082
National average/total	18,010	55	2.60	53	100,475	100 (RM 5,275)	100 (RM 994)	100 (RM 15,048)	100 (RM 6,060)	18.5	41.6	26.7	39.9	2,560	

[a] Figures for 1970 include Kuala Lumpur.
[b] Figures for 1970 include Perlis.
[c] All GDP/GRP data are as 1978 prices.

Sources: Government of Malaysia, *The Second Outline Perspective Plan 1991–2000*, 1991; *Sixth Malaysia Plan 1991–1995*, 1991; and *Mid Term Review of the Sixth Malaysia Plan 1991–95*; 1993.

Table 3 **Philippine regional indicators**

	Population			Gross regional product			Average family expenditure		Distribution of GDP/GRP				Per cent of work-force in agri-culture 1993	Loans as per cent of GRP 1990[b]	Car + utilities per 1000 popu-ulation 1993	Per cent of popu-lation in poverty 1991	Infant mortality rate 1990 per 1000
				Total	Per capita (national aver-age = 100)				1993 per cent								
	Total 1990 ('000)	Density 1990 (persons/ sq)	Growth 1970–90 (per cent)	1993	1993	1974[a]	1991	1975	Agri-culture	Industry	(Manu-facturing)	Services					
Metro Manila	7,928	12,465	3.5	476	248	288	203	179	0.0	38.8	30.7	61.2	1.4	65	83.3	16.7	46
Cordillera	1,146	63	2.3	27	98	na	84		20.8	49.0	27.1	30.2	65.7	na	15.0	41.5	63
Ilocos	3,551	277	1.8	40	49	59	87	95	42.1	12.0	5.9	45.9	52.9	12	10.6	55.3	56
Cagayan Valley	2,341	87	2.4	29	49	58	77	87	51.8	11.4	6.3	36.8	68.4	11	7.5	48.9	62
Central Luzon	6,199	340	2.7	129	88	75	119	99	23.4	39.4	24.3	37.2	35.1	10	20.8	35.5	45
Southern Tagalog	8,264	176	3.1	220	113	185	105	93	28.3	38.8	28.1	32.9	36.4	6	17.2	43.2	53
Bicol	3,910	222	1.4	44	42	51	65	73	38.8	19.2	1.5	42.0	55.8	7	4.5	61.3	64
Western Visayas	5,392	267	2.0	105	78	108	82	94	33.2	23.3	17.6	43.5	55.3	11	9.6	52.9	61
Central Visayas	4,593	307	2.1	94	87	79	68	89	15.3	30.6	22.0	54.1	46.6	17	13.7	46.7	55
Eastern Visayas	3,055	143	1.3	37	47	52	61	83	34.9	30.5	25.1	34.6	62.9	4	3.6	47.1	76
Western Mindanao	3,158	169	2.7	43	57	59	63	97	49.0	15.5	9.8	35.5	56.2	3	5.5	48.0	64
Northern Mindanao	3,510	124	3.0	74	85	72	72	65	37.4	26.8	21.0	35.8	58.6	7	6.7	57.4	58
Southern Mindanao	4,459	141	3.6	98	95	107	79	108	40.2	23.5	17.8	36.3	54.4	8	9.3	51.6	56
Central Mindanao	3,171	136	2.5	51	73	53	71	86	40.5	35.8	25.3	23.7	60.2	3	6.8	56.0	57
National total/average	60,703	202	2.6	1,466	100	100	100	100	21.7	32.9	23.8	45.4	45.8		20.4	44.5	57
					(p. 22, 336)	p. 1, 1,566.4)	p .51, 991)										

[a] From Lim, J.Y. and Nozawa K. (eds), 1992. *Decentralization and Economic Development in the Philippines*, Institute of Developing Economies, Tokyo. Data are at 1972 prices.

[b] From Lamberte, M.B., 1992. 'The decentralization and financial sector', in J.Y. Lim and K. Nozawa (eds), *Decentralisation and Economic Development in the Philippines*, Institute of Developing Economies, Tokyo:78.

Sources and notes: Unless otherwise indicated, data are from the National Statistical Coordination Board (and its predecessors), *Phillipine Statistical Yearbook*, Makati, various issues. Note that the Cordillero Autonomous Region came into existence only in 1987. For a limited number of variables, separate data are presented for the Autonomous Region for Muslim Mindanao.

Table 4 **Thai regional indicators**

	Population			Gross Regional Product			Average family expenditure		Percent of population in poverty 1992	Rice yields 1992–93 (kg/rai)	Cars + utilities per 1,000 population
				Total	Per capita						
	Total 1990 ('000)	Density 1990 persons/ sq. km)	Growth 1970–90 (per cent)	1991	(national average = 100) 1991	1978	(national average = 100) 1992	1968–9			
Greater Bangkok	8,590	1,107	3.4	1,301	322	271	226	182	1.0	694	181.7
North	10,584	62	1.7	255	53	71	74	75	13.7	400	33.9
North East	19,038	113	2.3	292	34	39	64	59	22.7	274	17.8
Centre	9,369	112	2.1	454	107	143	98	109	6.0	451	47.8
South	6,966	99	2.5	207	61	102	90	84	12.1	322	32.8
National total/ average	58,336	106	2.6	2,509	100 (B44, 084)	100 (B10,570)	100 (B84,744)	100 (B10,992)	13.7	348	52.8

Sources: National Statistical Office, *Statistical Yearbook Thailand*, Bangkok, various issues; except for poverty data, which are from Medhi, K., 1995, unpublished, untitled paper.

The second caveat concerns data availability.[2] Reasonably comprehensive and reliable data at the sub-national level have been produced only since the mid-1970s. It is true that some data—international trade, population censuses—have been available since the early part of the century in some cases. But the regional accounts data base, in particular, is only about 20–25 years old. Consequently, in the following analysis inferences concerning regional dynamics will be restricted to the period from 1970 onwards, although some researchers have employed demographic and other data imaginatively to draw inferences over longer periods.[3] The data base now emerging

2 Unless otherwise indicated, the principal data sources for each country are as follows. Indonesia, Biro Pusat Statistik, *Statistik Indonesia*, and *Pendapatan Regional Propinsi–Propinsi di Indonesia*, various issues; Malaysia, Government of Malaysia, *Sixth Malaysia Plan 1991–1995*, and *Mid-Term Review of the Sixth Malaysia Plan 1991–1995*, and earlier Plan documents; Philippines, National Statistical Coordination Board (and its predecessors), *Philippine Statistical Yearbook*, various issues; Thailand, National Statistical Office, *Statistical Yearbook Thailand*, various issues.

3 An additional minor complication is that there have been some administrative and territorial changes since the early 1970s, which limit comparisons even over this period. For example, as noted Indonesia incorporated East Timor in 1976, and data for this province became available only in the 1980s; data on Irian Jaya in the 1970s are also incomplete. During the 1970s, Perlis and Kuala Lumpur became separate states (the latter as a Federal Territory), excised from Kedah and Selangor respectively. In 1972 the number of regions in the Philippines was expanded from 10 to 13, while after 1986 two small additional regions were created in the north (Cordillera Administrative Region) and the south (Autonomous Region for Muslim Mindanao).

throughout the region will increasingly facilitate analysis of economic structure and trends at still lower levels of administration.

A range of summary socioeconomic data for each country is provided in Tables 1 to 4. At least five major features of this data set should be emphasised: the spatial distribution of economic activity, regional disparities in income, regional disparities in a range of social indicators, regional economic structure and other indicators of regional disparities, and the dynamics of regional development. It will be useful to summarise the salient features in each case.

The spatial distribution of economic activity

First, the spatial distribution of economic activity, population and natural resources is very uneven in all four countries, with the greatest concentration of incomes around capital cities and a few resource-based centres. Java, with 6 per cent of Indonesia's land area, dominates Indonesia's economy, as it always has. It contributes about 64 per cent of the country's non-oil GDP, marginally higher than its population share; its share of GDP is lower, at 56 per cent.[4] By contrast, the economies of the poorer provinces east of Bali and Kalimantan are very small. Apart from South Sulawesi, none of the nine has a non-oil gross regional product (GRP) of more than 1 per cent of the national non-oil GDP. Within Java, Jakarta and West Java, which may be regarded as one economic zone, clearly stand out. They constitute almost one-third of national non-oil GDP (though less—29 per cent—of GDP), and over half that of Java. Within the other major island groupings, similarly, certain provinces stand out. North and South Sumatra are by far the largest non-oil economies on that island, contributing about 59 per cent of its total. South Sulawesi is about 58 per cent of the total economy of the island of Sulawesi. East Kalimantan produces 62 per cent or 40 per cent of Kalimantan's GRP, depending on whether oil is included or excluded. These regional disparities reflect a range of factors, the single most important of which is the distribution of natural resources. One indicator is provincial population densities, which vary enormously from over 900 persons per square kilometre in Yogyakarta to just four in remote Irian Jaya. Of course, at sub-provincial levels the regional demographic disparities are much greater still. Another factor in these disparities is the location of mineral deposits, particularly oil and gas.

4 The Indonesian statistics usefully distinguish between oil and non-oil GDP and GRP, 'oil' being a shorthand expression for the oil and gas production and refining sector. The non-oil figures are generally a more accurate indication of economic activity, and certainly economic welfare. The oil centres operate as enclaves, with the income accruing principally to foreign oil companies, and to the central government through tax revenue and the income of the state oil company Pertamina. As will be seen by a comparison of per capita GRP and per capita expenditure in the oil provinces, the former is virtually irrelevant as a guide to local living standards. A distinction between total and non-oil GRP would also be useful for Malaysia, but to the author's knowledge none is available.

In Malaysia, too, there is great concentration around the capital, perhaps to a surprising degree given the country's history as a federal political entity without a dominating metropolitan centre. Kuala Lumpur and the surrounding state of Selangor account for about one-third of GDP. Together with the two industrialised states to its north and south, they contribute half of the nation's GDP. No other state constitutes more than 10 per cent of the total. The unease of the two East Malaysian states at being dwarfed by their larger western states is underlined by the fact that the former are just 15 per cent of the national economy. Population and natural resources are distributed more evenly than in Indonesia. Nevertheless, the industrialised western states of West Malaysia all have population densities well above the national average, while Sabah and Sarawak remain lightly settled, at levels closer to the Kalimantan figures. The eastern states of West Malaysia adopt an intermediate position, closer to the national average. But the range is nothing like that in the case of the Java off-Java divide.

In the case of the Philippines, Metro Manila is about one-third of the national economy. On the face of it, this is surprisingly low, and similar to the share for Kuala Lumpur–Selangor and Jakarta–West Java. However, it needs to be remembered that the Metro Manila economy now extends well beyond the official boundary. Extending the national capital analogously to include the two adjacent regions, Central Luzon and Southern Tagalog, this 'central industrial zone' constitutes about 56 per cent of Philippine GDP. In this sense, Philippine capital city concentration exceeds that of the other two countries. No other region in the country has a share of GDP exceeding 10 per cent of the national total. More generally, Luzon's domination of the national economy is revealed by the fact that it constitutes about two-thirds of the total, compared to 16 per cent and 18 per cent of the shares for the Visayas and Mindanao respectively. A significant feature of the Philippines is that the spatial distribution of its natural resources is quite even. Unlike Indonesia and Malaysia, there are no great concentrations of mineral deposits anywhere in the country. And outside Metro Manila and the two low density regions in the north of Luzon, the range of population densities from highest to lowest in the remaining 11 regions is less than 3:1.

It is perhaps ironic that sharp disparities are evident in Thailand, one land mass and the most 'compact' geographically of the four countries. The divide is particularly pronounced between Greater Bangkok and the rest of the country. The latter dominates the economy, generating over half the national GDP, even though its population is less than 15 per cent of the total. Moreover, this estimate of concentration may be an understatement, to the extent that the capital is effectively spilling beyond its borders. Bangkok is one of the world's major primate cities. Another important feature of the Thai spatial economy is that the poor Northeast region is also populous, accounting for about one-third of the total population. This is a much larger share than the lagging regions elsewhere, such as Indonesia's eastern provinces and Bicol or Eastern Visayas in the Philippines. The obvious policy implication is that the region is simply too large to countenance the possibility that out-migration will be its principal salvation, a point to which we return in the last section of this paper.

Regional income disparities

Regional income levels reflect these disparities in the concentration of economic activity, and indeed in some cases are their proximate cause. This is clearly so in Thailand, but is also a factor in all of the capital city regions, the high income enclaves in Southeast Asia. In 1993, for example, Jakarta's GRP per capita was about $1,910, Kuala Lumpur's $6,250, Manila's $2,110, and Bangkok's $6,790.[5]

Any analysis of regional income disparities needs to distinguish between production-based figures generated from national and regional accounts, and estimates derived from family income and expenditure surveys. The latter, while often approximate and based on small sample sizes, will invariably provide a more accurate estimate of living standards. This is especially the case in the present natural resource enclaves, where income accrues to factors outside the region. Even adjustments which attempt to allow for this factor, such as the exclusion of oil in Indonesia's regional accounts, will still provide an imperfect picture of living standards.

Bearing these caveats in mind, the picture which emerges from Tables 1 to 4 is nonetheless reasonably clear. In Indonesia, Jakarta is the only really high income province, apart from the special case of East Kalimantan. Using the non-oil series, its per capita GRP is some 3.1 times the national average. Only a small number of other provinces are (marginally) above the national average apart from these two: the resource-rich economies of North and South Sumatra, the successful development story of East Java, the tourist island of Bali, and timber-rich Central and South Kalimantan. Significantly, in two of the four mineral-rich economies (Aceh, Riau, East Kalimantan, and Irian Jaya) their non-oil GRPs fall below the national average.

Three additional features of Indonesia's patterns deserve comment. First, the nine provinces of Eastern Indonesia are poor: all but the special case of Irian Jaya are below the non-oil average, and several are less than two-thirds this figure. The three Nusa Tenggaras are really poor, being little more than one-third the national average. If they were independent nations they would rank alongside the poorest economies of Sub-Sahara Africa and would almost certainly be grouped within the UN's Least Developed category of nations. Secondly, the figures for West and Central Java and

5 These figures are still well below those of Singapore, of $19,850 in that year. The figures for the four capitals would be adjusted further upwards if presented in PPP terms, although there is an issue here of whether the full upward adjustment implied by the PPP estimates should be applied to these higher cost metropolitan centres. It might be noted in passing that these figures again draw attention to the economic concentration around Bangkok: its per capita GRP is above that of Kuala Lumpur, even though at a national level the Malaysian figure is some 50 per cent higher.

Yogyakarta are also below the national average. But as we shall see shortly, social indicators in this part of the Javanese heartland are much better, and generally superior to those regions with higher nominal GRP per capita off-Java. This summary picture accords with that presented in the family income and expenditure estimates. Thirdly, average household expenditures provide a more accurate indicator of interregional variation in economic welfare, which qualify the picture depicted by the regional accounts. As would be expected, the disparities are generally less, although Jakarta especially and East Kalimantan still stand out. Most of Java–Sumatra–Kalimantan emerge as relatively well off, with only Central Java and the transmigrant-recipient area of Lampung being conspicuously below the average. By contrast, the eastern provinces are on average a good deal poorer.

In Malaysia, spatial disparities are also clearly evident. The two rich industrialised states, Pinang and Selangor, together with the capital (designated as a special Federal Territory) stand out, as does the resource-rich east coast state of Terengganu. The latter is however a clear case of enclave development, as average family income is among the lowest in the country. Most of the remaining states along the country's industrialised west coast of West Malaysia are below, but close to, the national average according to both sets of indicators. By contrast the northern and eastern states of West Malaysia, predominantly Malay, are a good deal poorer. The two East Malaysian states are about average in terms of family income but, surprisingly in view of their natural resource endowments, lower in terms of GRP per capita. Overall, the disparities are rather moderate. Household income in the capital is some 2.9 times that of the poorest Kelantan, in contrast to the 3.5 differential (in expenditure) between Jakarta and the poorest Indonesian province, East Nusa Tenggara.

In the Philippines, as noted, the capital stands out, with a per capita GRP 2.5 times the national average, which is also six times the poorest region, Bicol. These differences narrow considerably on an expenditure basis, with Manila being double the national average, and 3.3 times the poorest region, figures which are broadly similar to the disparities in Indonesia. After the capital, a second group of regions have average levels of income or expenditure, reflecting modestly high living standards and/or favourable resource endowments. These include the two regions adjacent to the capital, Southern Tagalog (the only other region above average in both respects) and Central Luzon; the small, recently established region of Cordillera in the north of Luzon; and pockets of Western and Central Visayas (the latter including the thriving number two city in the country, Cebu), and Southern Mindanao, which includes the major city of Davao. By contrast, much of the north and south of Luzon are very poor, as is the Eastern Visayas and Western Mindanao. It is hardly without coincidence that these areas have been among the principal regions of insurgency. Like their counterparts in Indonesia, these regions would be among the poorest in the world if they were independent nation states.

Finally, the biggest disparity of all is found in Thailand. Bangkok's per capita GRP is 3.2 times the national average, and almost 10 times that of the poor Northeast. Such a range explains why the city's figure is higher than that of Kuala Lumpur even though the Thai national average is considerably lower. It is important, moreover, to emphasise that the Thai regional groupings are on average much larger than the other countries, especially Malaysia and the Philippines. With finer disaggregations, the disparities would almost certainly be greater still. The country must consequently be regarded as a high regional inequality country. The prosperous Centre region also has an above average per capita income, driven by the Bangkok industrial and commercial spillover, and its traditionally strong food-crop economy. The differences are smaller in the case of expenditure, with the Centre and the South similar to the national average. Bangkok's expenditure is still 3.5 times that of the Northeast, also about the same as the range between Jakarta and East Nusa Tenggara. Nevertheless, even the poor Northeast has a GRP per capita which would place it at the very bottom of the World Bank's Lower Middle Income group, fractionally behind the aggregate Indonesian figure.

Regional disparities in social indicators

There is usually a positive correlation between economic and social indicators at the sub-national level in Southeast Asia, although as with inter-country comparisons there are exceptions. For example, some of the frontier resource-rich regions on the island of Borneo record quite high incomes but poorer education, health and other social indicators. The reasons for such disparities are not difficult to discern: the benefits of a resource boom are generally unevenly spread; it attracts migrants in a not always successful search for riches; national and regional accounts overstate levels of economic welfare for reasons already noted; and it takes time to build up the necessary social infrastructure to provide the public good element in education and health services. Conversely, for a complex set of social and institutional reasons, some other regions display high social standards even at relatively modest income levels. Prominent Indonesian examples here are the Special Region of Yogyakarta and North Sulawesi, both below average with respect to economic indicators, but superior in their social records. One of the exciting challenges of detailed sub-national research work has been to explore the rich mosaic of factors which explain these sometimes contrary set of outcomes.[6] In what follows, it is possible only to draw attention to some of the obvious features of these socioeconomic divides.

6 In this respect, also, Indonesian research is a good deal more advanced than that of the other countries. The contributions to Hill ed. (1989) contain much discussion of the factors at work. A detailed examination of development issues in Eastern Indonesia is provided by Barlow and Hardjono (1995). A particularly fine inter-disciplinary study of one of Indonesia's most interesting provinces—East Java—is provided by Dick, Fox, and Mackie (1993).

According to standard education and health indicators, sub-national disparities in Indonesia are low and they were declining, at least until the mid-1980s (Hill 1992). This is the result of the strong, nation-wide push to achieve universal primary school enrolment, now extending into the secondary level. More substantial variations are discernible at higher levels of education, and they would also be evident if reliable quality indicators were available. Even with the limited data set available, it is clear as noted that the income–education nexus is hardly straightforward. Some more industrialised or higher income provinces, such as West Java, and North and South Sumatra, do not perform well, while some of the poorer ones have better records. Yogyakarta, of course, stands out owing to its traditional role as a key provider of higher education services. A similar picture emerges in the case of health and poverty indicators. Nevertheless, according to the latter two variables, in particular, the east–west divide in both economic and social indicators is clearly evident. Once more the three Nusa Tenggara provinces stand out as arguably the most disadvantaged regions of ASEAN.

The evidence suggests that the economic and social correlations are generally stronger in the other three countries, perhaps to be expected because none can match Indonesia's geographic, natural resource, and cultural heterogeneity. In Malaysia there is a very clear pattern. The six richer states of West Malaysia's 'industrialised west'—the capital, Selangor, and Pinang especially—together with the adjacent state of Pahang, constitute the low poverty region. They also have better access to medical services. By contrast, some of the eastern and northern states, together with East Malaysia, still have quite serious problems. Significantly the only states outside the industrialised west which record per capita GRP or family income above the national average, Terengganu and Sabah respectively, also have the nation's highest poverty incidence. The shortage of medical services is particularly striking in the 'frontier' East Malaysian states.

In the Philippines, the capital and Central Luzon have the lowest poverty incidence and infant mortality rate, with Southern Tagalog very close behind the latter region. Apart from Manila, the regional pattern is relatively even, in fact surprisingly so given the income disparities, and presumably reflects historically developed public health and education systems. For example, the frontier region of Mindanao scores more poorly, but even for the lowest income of the four—Western Mindanao—the difference from the national average is not great. Bicol has the highest poverty incidence, while it, Western Mindanao and Eastern Visayas rate the worst on infant mortality, thus confirming the income-social indicators disparities. In Thailand, the association is stronger still, with the ranking by income and poverty incidence being exactly the reverse: Bangkok, Centre, South, North, and Northeast. Of course, it is possible that finer sub-national divides would produce different rankings.

Regional economic structure

To what extent do sub-national economic structures reflect patterns of resource endowments and levels of incomes? In most cases the answer is quite accurate. The lower income and less densely settled regions generally have larger natural resource sectors, especially agriculture. Those regions with higher incomes, and stronger endowments of human capital and entrepreneurial skills, all relative to natural resources, and better provision of ports, roads and other physical infrastructure, generally have larger manufacturing sectors. Major metropolitan areas, capital cities especially, and established commercial hubs, have larger service sectors. It is useful to examine these propositions with reference to each region's economic structure.

In Indonesia the great divide is of course between Java (to which might be added Bali) and the rest of the country. The country's footloose industrial activities, both export-oriented and import-substituting, are located almost entirely on the island. Such a pattern is consistent with the theory of sub-national comparative advantage, as mentioned above. Land prices are higher on Java, and its wage levels are higher than those in poor regions elsewhere in the country (though not significantly higher; labour mobility is already high, and increasing as improved physical infrastructure and information flows lower the cost of movement). But these cost disadvantages are slender compared to the overwhelming benefits of Java, both its purely commercial assets, and its proximity to political centres of power. Footloose manufacturing on any scale off-Java is found in only three locations, all with special features: Bali (more akin to Java in its factor endowments anyway), with its tourist-related garments and handicraft activities; Batam and adjacent islands (administratively part of Riau province), which are part of the Singapore-centred SIJORI growth triangle; and North Sumatra, which is the largest regional economy outside Java.

Java also has the most developed service economy, as would be expected since it not only contains the seat of national government, but it is also the provider of high value services such as finance, education, health, and international transport. Jakarta of course stands out particularly in this respect. For example, its formal banking sector, proxied by bank deposits as a percentage of GRP, is fully seven times larger than the next two provinces, Bali and Yogyakarta (coincidentally, both major tourism centres).

Outside Java–Bali, the natural resource sectors are much larger. In some provinces—South Sumatra, parts of Kalimantan, even Maluku—there is the illusion of significant industrialisation. However, in most cases the high share of manufacturing in GRP simply reflects the presence of one or two very large factories (typically a fertilizer plant) or one resource-based activity (usually plywood), superimposed on a fairly small agrarian economy. In these cases the workforce composition is a more accurate indicator of regional economic structure. In 1990, for example, agriculture's share was below the national average in all of Java–Bali, although, apart from Jakarta, below 40 per cent only in West Java, and the special case of East Kalimantan. In most other provinces, agriculture's share was well above the national average, especially in the poorer eastern provinces, where for some it is still over 70 per cent. The shift out of agriculture is also occurring more slowly in these less dynamic regions.

A more nuanced approach to Indonesia's vast differences in resource endowments would also distinguish among various natural resource sub-sectors. This is obviously so for the major mining locations, Aceh, Riau, East Kalimantan, and Irian Jaya. Moreover, within agriculture there are big differences, owing to differences in soils, climate, local diets and technologies, and the provision of agricultural infrastructure. There are the major wet-rice economies of Java–Bali, extending in some form to a few other regions, such as parts of West Sumatra, South Sulawesi and West Nusa Tenggara. Cash crops are more important in most of Sumatra, West Kalimantan, and parts of Sulawesi, though they still retain a foothold in East Java. Livestock and fisheries are important in parts of Eastern Indonesia. Thus, in summary, Indonesia's great economic and ecological diversity constitutes an excellent laboratory for examining issues of sub-national comparative advantage and specialisation. It also illustrates that these standard tools of analysis of international comparisons, suitably modified, are equally illuminating at the sub-national level.

Special attention has been given to Indonesia given its diversity, the substantial body of research on it, and its good data base. But the same general principles can be applied to the other countries. In Malaysia, the capital is conspicuous for its large service economy, as would be expected. It, together with Pinang and parts of Selangor, clearly contain the greatest concentrations of service sector activities. Apart from Kuala Lumpur, the ribbon of states along the west coast of West Malaysia all have manufacturing sector shares which are above the national average.[7] This applies particularly to Selangor (with a share double the national average) and Pinang, which both have shares considerably higher than any country, even city states such as Singapore. By contrast, all other states have below average shares. As would be expected, it is the east coast and East Malaysian states which are the least industrialised. One of the highest manufacturing shares outside the 'industrialised west' region is Sarawak, reflecting its timber and resource processing. The industry shares reflect these manufacturing patterns, with the obvious additional factor being the huge mining presence in Terengganu and to a lesser extent East Malaysia. Agricultural shares follow the expected pattern, in that higher shares generally correlate closely with lower incomes and population densities. The regional divide is further illustrated by the fact that, apart from the special case of Terengganu, agriculture's share of GRP outside the

7 See Spinanger (1986) for a detailed study of spatial patterns of industrialisation in West Malaysia. To the author's knowledge, this is the only detailed study in ASEAN which has sought to explicitly link regional factor endowments and their corresponding factor intensities of production at the sub-national level.

'industrialised west' is above the national average, and in about four of these seven states it is almost double this figure. Service sector shares also follow expected patterns in most cases, although as in Indonesia there are cases of puzzling deviations from the national average (for example, the high share of Kelantan).

Philippine patterns are broadly similar, without the presence of large mining enclaves found in Indonesia and Malaysia. Metro Manila has by far the most developed services economy. Indeed, the only other region with a share significantly above the national average is Central Visayas, reflecting the key role of Cebu as a transport and communications centre, and a second tier provider of higher value services to the Visayas and Mindanao. These rankings are corroborated by other service sector indicators. Like Jakarta, Manila is far and away the financial services capital, with a (formal sector) loans to GRP ratio about four times the next region—again Central Visayas—and ten times that of several regions. The stock of cars and utilities is also very large, as a visitor to its clogged streets can easily discern. Mindanao and the particularly poor regions of Eastern Visayas and Bicol stand out as the least developed service economies, reflecting low incomes, or frontier development status, or both (for example, in Western Mindanao). Conversely, manufacturing is most developed and its share above the national average in Manila and its two adjacent regions, together with a few regions containing large natural resource projects. The latter includes the Cordillera, Eastern Visayas, and Central Mindanao. As in such cases in Indonesia, the workforce data provide a more reliable guide to economic structure. Whereas Central Luzon and Southern Tagalog have below average shares of agricultural employment—the only two, apart from Manila, with this attribute—the other three regions have shares which are among the highest in the country. These figures therefore define the Philippine spatial economy reasonably clearly: its pockets of strong services specialisation, Manila, with Cebu a distant second; an industrial base concentrated around Manila, extending on any scale only to some resource projects outside the 'central industrial zone'; a few mining enclaves; and a strong agricultural specialisation still evident in most of the remainder of the country, especially the northern and southern parts of Luzon, East and West Visayas, and Mindanao.

The dynamics of regional development

The analysis thus far has focused on a snapshot picture of sub-national economies in the early 1990s. What of the dynamics of regional development? These dynamics may be captured in a number of ways, by assessing regions' socioeconomic rankings over time, by examining trends in their economic structure, and by estimating trends in dispersion indices. We conclude this section by investigating trends in regional disparities, and then by considering some explanations for regional patterns of development.

A crude indicator of trends in inequality is a comparison of interregional relativities over time.[8] Tables 1 to 4 contain the relevant data, generally from the mid-1970s, when they were first published, to the early 1990s. In the case of Indonesia, the comparison should focus on the expenditure and non-oil GRP data, for reasons given above. Here a number of trends are discernible. First, Jakarta is clearly becoming more affluent relative to the rest of the country according to both sets of indicators. Secondly, there is only one other province whose relative ranking has improved unambiguously—the tourist island of Bali. Thirdly, there are several cases of clear deterioration, in both indicators. Sumatra contains a number of such examples, the most serious and poorest being Lampung. The trends for Eastern Indonesia should be interpreted with caution, as the 1970s expenditure and GRP estimates are very approximate. Nevertheless, there has obviously been no relative improvement; the real issue is whether the deterioration has been as pronounced as some of the data indicate. In sum, then, the Indonesian picture suggests no major changes in disparities, though the possibility of a small increase cannot be discounted owing to Jakarta's improved ranking and a decline in that of some of the poorer provinces. Jakarta evidently demonstrates a capacity to prosper in all policy regimes and circumstances, ranging from the interventionist oil-boom period to the less regulated era in which services and labour-intensive manufactures have been major engines of growth.

There appears to have been little overall change in Malaysia, certainly as indicated by the household income series. Over the period 1976–91, the position of the three wealthy western states of West Malaysia has changed little, apart from the sharp decline in the ratio for the capital city. Similarly, there has been very little movement in any of the other three regional groupings identified in Table 2. The regional accounts data do suggest larger changes, but these are probably more the result of natural resource discoveries (the case of the sharp increase in Terengganu), lower natural resource prices (affecting East Malaysia), and the boom in foreign investment (in Pinang for example). As noted above, the results confirm Malaysia's status as a relatively low inequality country.

The Philippine series do not suggest any clear trends, particularly as the regional accounts and expenditure data often move in contrary directions. Thus the relativities of

8 One general caveat in drawing conclusions from interregional data is that they are nominal aggregates which do not allow for interregional variations in price levels. Ideally, in this analysis one would want to allow for such variations. However, the task is complicated by the fact that regional price data are not available for all countries. Moreover, even when they are available, as in Indonesia, they are typically presented only for provincial/state capitals which, in large and poorly integrated areas, are very crude estimates of price levels as they pertain to an entire region. In any case, the estimates which incorporate regional price adjustments for Indonesia (see, for example, Esmara (1975:47–8) and Hill (1992:359, 362)) conclude that this element does not have a major impact on the overall picture of regional inequality. Finally, the impact of this factor is almost certainly diminishing as improvements in physical infrastructure reduce these sub-national price disparities.

the three richest regions, Manila, Southern Tagalog, and Central Luzon, either increase or decrease according to which source is used. At the other extreme, however, the position of several of the poorer regions, such as Ilocos, Bicol, Eastern Visayas and Western Mindanao, appear unambiguously to have deteriorated still further. Another notable instance of declining relative incomes is Western Visayas, which is easily explained by the demise of the sugar industry which dominates that region. It is difficult to discern any significant trend by any major island group, other than the fact that Manila and its immediate surrounds still retain their pre-eminent position.

The major trend in the case of Thailand is the continuing enrichment of Bangkok relative to the rest of the country, at about the same rate regardless of which series is consulted. In no other region is there such a clear trend. The relativities for the Northeast remain about the same, the Centre appears to have slipped marginally, while the evidence conflicts for the North and South. The changes are less pronounced for the expenditure estimates which, if accurate, provide some reassurance that inequality, while serious, may not be increasing as quickly.

Conclusions based on such casual inspection of the data are of course incomplete, and a fuller analysis would employ a standard indicator of regional inequality. The most widely used is the coefficient of variation, first popularised in the analysis of regional inequality in the seminal contribution of Williamson (1965). The coefficient is simply a weighted dispersion measure, standardised by the mean.

The formula is: $CV_w = \frac{1}{\bar{Y}}\sqrt{\sum_{i=1}^{n}(Y_i - \bar{Y})^2 . \frac{P_i}{P}}$, where

$\bar{Y}$ = average income (or output or expenditure) per capita of all regions,

Y_i = income (or output or expenditure) per capita of region i,

P_i = population of region i, and

P = national population.

The estimates in this equation employ population as weights, although income or GRP could also be used.

The measure can be applied to a range of socioeconomic variables, but the focus here is on trends in income, expenditure and output.[9] A summary of trends is presented in Table 5, for both GRP and household or personal income or expenditure. As above, there is an additional distinction in Indonesia between total and non-oil GRP. It is important in evaluating these data to emphasise again that, owing to variations in the number of administrative units, comparisons among the four cannot be made. The focus is on

9 One reason for eschewing trends in interregional social inequality is that the data base is still rather weak. Poverty estimates at the regional levels, for example, are still at best approximate, especially for earlier years in less populous states and provinces where the size of the household samples (used to generate the poverty numbers) are small. See Hill (1992) for one of the few attempts to apply this framework to social variables, in the case of Indonesia.

Table 5 **Estimates of regional disparities in ASEAN** (coefficients of variation)

INDONESIA	Regional accounts		Personal expenditure
	Total	Non-oil	
1975	1.26	0.43	..
1977	1.14	0.47	..
1979	1.07	0.50	..
1981	1.22	0.51	..
1983[a]	1.04	0.56	0.35
1985	0.90	0.55	0.34
1987	0.84	0.55	0.34
1989	0.76	0.54	0.35
1991	0.72	0.51	0.32
1992	0.68	0.51	0.32

MALAYSIA	Regional accounts	Household income
1970	0.32	..
1975	0.30	0.43
1978[b]	0.44	0.44
1980	0.37	..
1985	0.42	0.32
1990	0.37	0.29
1993	0.32	..

PHILIPPINES	Regional accounts	Household expenditure
1975	n.a.	0.30
1978	0.58	..
1980	0.58	..
1982	0.55	..
1984	0.52	..
1986	0.55	0.36 (1985)
1988[c]	0.59	0.36
1990	0.61	0.44 (1991)
1993	0.61	..

Table 5 (continued)

THAILAND	Regional accounts	Household expenditure
1975-6	..	0.28
1978	0.71	..
1981	0.73	0.29
1984	0.74	..
1986	0.75 (1985)	0.37
1988	0.96 (1989)	0.39
1990	1.01	0.49
1992	1.00 (1991)	0.56

[a] Indicates minor break in series, mainly reflecting the inclusion of East Timor and the rebasing of the regional accounts series.

[b] Up to 1978, Kedah–Perlis and Selangor–Kuala Lumpur were recorded as single states.

[c] From 1988, the Cordillera Administrative Region is separately identified.

Notes and sources: The data refer to coefficients of variation, as defined in the formula on p. 21. The estimates have been computed from data provided in the publications listed in footnote 2, except in the case of Indonesia, where the coefficients are from Akita, T. and Lukman, R.A., 1995. 'Interregional inequalities in Indonesia: a sectoral decomposition analysis for 1975–92', *Bulletin of Indonesian Economic Studies* 31(2):68, 77.

changes over time in each country, where consistent administrative boundaries permit such analysis.[10] As argued above, the household income/expenditure data are likely to be more accurate than the regional accounts as an indicator of interregional variations in economic welfare, especially in the presence of large natural resource enclaves. It is also to be expected that the dispersion according to the former data set would be a good deal lower.

To the author's knowledge, the only country for which detailed calculations of this sort have hitherto been undertaken is Indonesia. The estimates in Table 5 draw on the most recent and comprehensive set of such calculations, by Akita and Lukman (1995).[11] Two major conclusions stand out. First, the results are highly sensitive to the selection of variables. The coefficients are high for total GDP, but lower in the case of non-mining GDP, and lower still for personal consumption expenditure. Thus, whether Indonesia is classified as a high or moderately low inequality country depends on the selection of variables. As argued above, the most accurate measure of interregional variations in

10 Where there have been major administrative changes, of the type outlined in footnote 3, it is clearly impossible to conduct time series analysis. But it can safely be assumed that minor impacts, such as the inclusion of East Timor in Indonesia and the separation of the Cordillera region in the Philippines, would not have much effect on the summary indices.

11 See, for example, Esmara (1975), which was the first serious quantitative treatment of the issue, followed later by Akita and Lukman (1995), Hill (1992), Kameo and Rietveld (1987), Uppal and Budiono (1986), and the references contained therein.

economic welfare is the third series, and thus the evidence points towards the moderately low conclusion. Secondly, there is no discernible trend evident in the series. The declining coefficients in the total GDP series can be discounted, since they simply reflect the falling share of the (region-specific) oil and gas sector in the economy since the early 1980s. The other series display no clear trends: that of non-mining rose from the mid-1970s (when the data base was still rudimentary) through to the early 1980s, but has declined since, while the expenditure series was broadly constant over the period 1983–92. The literature referred to in footnote 11 has introduced some additional modifications which reinforce these conclusions, including combining Jakarta and West Java on the grounds that they are in reality one sub-national economic entity, and some estimates of interregional variations in socioeconomic welfare. In sum, the maintenance of reasonably low regional inequality is remarkable in view of the powerful centrifugal forces inherent in the country's geography, its heavily centralised and authoritarian political structure, and the region-specific impact of variables ranging from resource booms to foreign investment inflows.

It was argued above that Malaysia also may be characterised as a low inequality country, especially as measured by the family income series, which abstract from the impact of resource booms in the regional accounts. The two series both point to a decline in inequality through at least some part of the 1980s, such that the coefficients were lower in the early 1990s than they were a decade or more earlier. By contrast, there was some increase in the 1970s, at least according to the regional accounts data. Such an outcome was probably the result of region-specific resource booms, and the separate enumeration of high-income Kuala Lumpur in the data. Overall, the Malaysian data paint a fairly positive picture of declining inequality. These results are broadly consistent with the earlier estimations of Spinanger (1986:148), the only other set of figures for Malaysia of which the author is aware. Spinanger calculated a range of coefficients for the period 1965–90 (the latter year based on projected data) for the then ten states of West Malaysia. The estimates generally fell within the range 0.28–0.40, and most series showed a marginal decline.

The estimates for the Philippines based on the regional accounts suggest moderately high inequality but no clear overall trend. The coefficient declined during the serious recession of the mid-1980s, a plausible pattern in view of the fact that high value added and regionally concentrated manufacturing and service sector activities were disproportionately affected over this period. The figures then rose again during the economic recovery which followed. The data are suggestive of increasing inequality since the mid-1980s. Likewise, the household expenditure data suggest an even sharper increase over the period 1988–91, and one for which there is no obvious explanation, given that Manila's pre-eminence showed no clear trend then. However, the data are at best suggestive, and judgment ought to be suspended pending a longer time period of analysis.

In the case of Thailand, the trends are consistent and quite disturbing. Inequality has risen since the mid-1970s according to both series. The increase seems to have been particularly pronounced from the mid-1980s through to the early 1990s, with the coefficient rising by one-third in the case of the regional accounts and one-half according to household expenditure. Such a change in a short period confirms superficial impressions that the benefits of Thailand's spectacular growth since the mid-1980s have been distributed extremely unevenly on a spatial basis, and that this imbalance is now one of the major challenges confronting the country.[12]

Explaining patterns of regional inequality

Social scientists are still grappling with the explanations for inter-country differences in economic performance. Since many of the widely accepted explanations for these differences may be regarded as 'constants' at the sub-national level—for example, exchange rates, outward orientation, macroeconomic stability, even human resources (if education policy has a national orientation)—the task of explaining sub-national variations is that much more difficult. This is particularly the case in a country like Indonesia, with its highly centralised system of governance, in which most programs are implemented nation-wide and in which the income from natural resources is supposed to accrue to the central government.

The task of searching for an explanation is not easily amenable to quantitative analysis. One of the few attempts in this direction, employing a standard neo-classical model for Indonesia, proved unsuccessful.[13] It is difficult to identify, much less quantify, the key variables.

Some variables might appear obvious. Capital cities, as noted, are in all countries the richest region. This is hardly surprising given the absence of low productivity agriculture, and the presence of high value manufacturing and service industries.

12 It is possible that the worst of this Bangkok-centred growth phase is over, and that the pace of development outside Bangkok is accelerating, hastened by lower land and labour costs, comparatively good physical infrastructure in rural areas, and at the margin some government fiscal incentives. Data on approved investment from the Thai Board of Investments, more recent than the coverage in Table 5, suggest such a trend. In 1993, for example, Bangkok attracted 41.7 per cent of such investments, compared to 16.9 per cent for the Bangkok surrounds and 41.4 per cent for the rest of the country. For 1994 and 1995 (the latter through to November) the respective shares were 10 per cent, 19 per cent, and 71 per cent (*Asian Wall Street Journal*, 29 January 1996).

13 See Giarratani and Soeroso (1985). It is instructive to quote from their conclusion (p. 382): 'We are at a loss to assign precise meaning to the information conveyed by these [regional growth] differentials. It seems apparent, therefore, that much remains to be done before a full understanding of the factors contributing to regional income divergence in Indonesia is at hand.'

Moreover, these cities are seats of government, and even in relatively open and undistorted economies such as Malaysia and Thailand an inevitable consequence of the concentration of political power is the accumulation of wealth. After all, the capitals are where the major infrastructure projects are awarded, where business licences must be obtained, where major foreign and domestic firms are headquartered, and where foreign aid flows first enter the domestic economy. Whether these capitals are sources of genuine economic dynamism, or derive their wealth mainly from rent-seeking and taxing the rest of the country, is another question, and one which is beyond the scope of this paper. An influential school of thought, promoted mainly by geographers, inclines to the latter view (see for example some of the contributions in Fuchs, Jones, and Pernia 1987). The truth is probably somewhere in the middle. The large flow of resources through these cities confers enormous opportunities for aggrandisement, but these cities' wealth also has a real economic basis. A concentration of high productivity resources in a major metropolitan centre is to some extent inevitable. Moreover, the income disparities between capital cities and the rest of the country are broadly similar in the more open economies of Malaysia and Thailand, as compared to the more interventionist regimes in Indonesia and the Philippines. Indeed, Bangkok stands out as the major primate city, in terms of its size and income differential. Moreover, the capitals' pre-eminence has not been seriously challenged during periods of partial reform, as illustrated by the case of Jakarta since the mid-1980s. Thus, whatever the precise mix of factors at work, capital cities are a significant factor in regional variations in levels and growth of economic activity.

It would be tempting to ascribe differences to natural resource endowments. To some extent this is plausible, as illustrated by the high per capita GRP for certain resource-rich regions. But, as argued above, closer inspection of the data do not support such a contention. In most of the resource-rich regions—for example, Mindanao, East Malaysia, and Kalimantan—levels of economic welfare are not high. Indeed, in quite a few instances they are below average, in addition to which the social infrastructure of education and health services is often poor. The explanation for this outcome is clear. Central governments appropriate a large proportion of the natural resource rents. Even the limited local spin-offs may result in low linkages, in the sense that consumption patterns in mining enclaves tend to be highly import-intensive (especially where much of the senior workforce is expatriate) and major infrastructure projects are awarded to more experienced (and better connected) companies from outside the region. Some of the region's resource-rich enclaves are centres of discontent, with a smouldering resentment of capital city authority and a sense of injustice concerning the distribution of natural resource rents. Historical grievances, such as in Aceh and Irian Jaya, and ethnic or religious conflict, as in Mindanao, compound the difficulties. Most of these regions are distant from capital cities, which adds to the sense of deprivation.

The most promising approach to explaining interregional variations, and in particular the success of regions outside the capital cities, is one which draws on a range of historical, institutional, and economic factors. Such an approach is nowhere better illustrated than in the East Java case study of Dick, Fox and Mackie (1993), the most detailed work of its kind for Southeast Asia. The province was historically quite poor, even by Indonesian standards. It has no natural resource base to speak of, and it has been only a marginal beneficiary of the resource flows to and through the capital city. As is evident from the book's title, the contributors identify 'balanced development' as central to East Java's success. The green revolution lifted growth in the 1970s. A broad base of manufacturing industries grew quite strongly, although neither the state-subsidised heavy industries nor the labour-intensive export-oriented sectors have located there on any scale. Land transport has improved considerably, and the city of Surabaya has traditionally served as a shipping centre and commercial capital for much of the country's eastern region. The commercial and education bases have always been quite strong. Interestingly, the standards of public administration appear to have been consistently above average.

Research of this kind is urgently required elsewhere in Southeast Asia. While in all regions there is a unique blend of factors at work, the general lessons from this study are illuminating: there needs to be a set of predisposing and facilitating factors as a base, combined with local initiative in the public and private sectors. Other success stories in the region seem to have the preconditions, too. In Bali, for example, rice and tourism underpinned growth, aided by social institutions. Pinang's historic strength as a centre of international trade, commerce and tourism, combined with good infrastructure and education, made it a natural location for the internationally oriented manufacturing which took root there in the early 1970s. In the Philippines, while national economic performance until recently precluded the possibility of local success stories, Cebu's superior performance is of interest, and probably explained by a similar set of factors as has operated in Pinang. This is all speculative, however, and the hypotheses outlined here need to be addressed through detailed, inter-disciplinary research.

Policy approaches and issues

The previous section has demonstrated that in the realm of regional policy, the record is reasonably good in Indonesia and Malaysia, though less so in Thailand. To be sure, there are problems even in the 'success' stories: disaffection in distant and resource-rich regions, by-passed regions where socioeconomic indicators consistently remain unacceptably below national averages, capital cities which appear to be benefiting disproportionately from the countries' rapid economic growth, and fiscal arrangements which are inadequate on both efficiency and equity grounds. But at least sub-national disparities have generally not worsened in these two countries. In Thailand, where the problems seem more serious, at least it could be said that the position of the poorer regions is deteriorating relatively, but certainly not absolutely. No really clear picture emerges from the Philippines, other than the fact that growth in all regions has been constrained by the poor national performance. This paper has thus supplied another dimension to the East Asian growth-equity story. The picture is not quite as straightforward as that relating to inter-personal inequality: with respect to regional inequality, Indonesia and Malaysia conform to the growth-with-equity model, but Thailand since the mid-1980s is a distinct departure from it.

This section has two parts. It briefly surveys and assesses regional policy approaches and policy instruments and then, to return to the questions raised initially, it attempts to evaluate which paradigm appears to be the most robust in explaining regional dynamics. It is important to emphasise again that no government in ASEAN, or probably anywhere else for that matter, has a coherent and rigorous developed regional policy. There are, certainly, explicit regional policy programs and objectives. But these are in the context of a range of interventions which, intended or otherwise, have implications for regional development patterns. And quite often it is the unintentional interventions which have the greatest impact.

It is also important to emphasise the international context in which the regional policy debate is occurring. All countries face the challenge of ensuring that the benefits of growth are distributed reasonably evenly on a spatial basis. But the challenge is especially pronounced for geographically large countries with diverse ecological conditions and poorly developed physical infrastructure.[14] Moreover, there is no consensus on the 'right' policy formula for regional development. There is a general presumption that administrative and fiscal decentralisation are desirable, and that vertical fiscal imbalances (where for example the expenditure commitments of sub-national governments are not matched by their taxation obligations) ought to be redressed. However, in practice, such an approach has not always worked: sub-national governments are not necessarily more competent, less corrupt, and more democratic than national governments. Fiscal decentralisation may also jeopardise national fiscal integrity, and it could exacerbate interregional disparities.[15]

14 There is a literature examining regional inequality in most large developing countries. A recent study for India (Das and Barua 1996), for example, concludes that inequality appears to have been increasing throughout most of the post-Independence period. By contrast, the evidence is somewhat mixed in the case of China. According to Lyons (1991), the data suggest a declining trend at least through to the mid-1980s, with the possible exception of the Cultural Revolution period. More recent research, by Jian, Sachs, and Warner (1996), finds 'strong evidence of [interregional] convergence during the reform period', with the notable exception since 1990 of growing disparity between the high-growth coastal regions and the poorer, slower-growing interior region.

15 For extensive discussion of these issues, see for example Tanzi (1995) and the World Bank (1989: chapter 7)

All four ASEAN governments now have some sort of regional policy framework. The most developed, the best documented, and arguably the most consistent, is in Indonesia. The country has a unitary system of government. Power is highly centralised in the Jakarta government, and sub-national administrations have little independent authority. The military constitutes an additional arm of authority; it too has a highly centralised structure, thus reinforcing such centralist tendencies. Nevertheless, the paradox of the New Order has been that, in spite of the concentration of power in the capital city, and more generally in Java, the regime has made a determined effort to ensure that the benefits of development are distributed widely. Programs such as infrastructure development, primary school education, rice intensification and family planning have been implemented on a national basis. This is a major explanation for the reasonably uniform pattern of development observed above. Although the poor regions certainly remain poor, there are no pronounced instances of *relative* deterioration over this period. There can be little doubt that politics and history explain the government's determination to promote an even pattern of spatial development (Mackie 1980). The experience of 1957–8, when several regions attempted to secede, and continuing disaffection in East Timor, Irian Jaya and Aceh, still loom large in the calculus of policy-makers.

These considerations also explain in part why regional policy reform has been so slow. A heavily centralised structure was probably inevitable, and desirable, in the early years of the New Order, when administrative and absorptive capacity in the regions was weak, and when Jakarta had to disburse large volumes of aid and oil money quickly. However, these factors had become much less relevant by the mid-1980s, and weaker still a decade on: the central government's fiscal position is now tighter, regional capacities have improved, and the system continues to stifle sub-national initiative.

The cornerstones of Indonesia's regional policy program are central government grants to the provinces, and the second tier authorities, municipalities (*kotamadya*) and *kabupaten* (administrative units which exclude major urban centres), together with direct payments under the *Inpres* (*Instruksi Presiden*, Presidential Instruction) program. The system is quite generous fiscally to the regions. It also provides a measure of fiscal equalisation because most of the revenues from the mining enclaves flow directly to and through the central government, and because the grants formula implicitly favours less populous provinces, which the poorer provinces of Eastern Indonesia happen to be. However, in other respects the system is deficient and greatly in need of overhaul. The allocation formulae contain no explicit criteria such as regional capacity or interregional equity. Moreover, sub-national authorities have little autonomy even in the collection of the (minor) taxes currently allocated to them. These taxes are narrowly-based, not particularly buoyant, and often costly to administer. There is little incentive for the local authorities to improve the efficiency of their collection procedures. The picture is little different on the expenditure side. According to one recent set of estimates, by Shah, Qureshi and Associates, the central government directly controls 76 per cent of sub-national expenditure, another 8 per cent is 'effectively controlled', while much of the remaining 16 per cent is 'influenced' by the centre. Not surprisingly, they conclude that

> Indonesia is fast approaching a stage in its economic evolution where the present degree of centralisation in the responsibility for the provision of public services will become increasingly untenable because of the implications for efficiency and the strain imposed on the financial and institutional capacities of the Center (Shah, Qureshi and Associates 1994:xviii).[16]

The immediate policy imperative, then, is to develop a regional fiscal strategy which facilitates efficiency gains from a freeing-up of the centre's administrative stranglehold, while specifying nation-wide minimum social and physical infrastructure objectives to meet equity targets, all within a framework which continues to deliver tight aggregate fiscal management.

The regional policy agenda in Indonesia goes beyond centre-regional fiscal relations, of course. There is a strong case for modifying and adapting central government programs to local conditions and comparative advantages. The national rice program has been a success, for example. But, especially in its early years, it was promoted in all regions, regardless of their ecology and dietary preferences. In parts of Eastern Indonesia rice is not the staple, nor is Java-style wet rice cultivation technology employed. More could be done in infrastructure projects to develop local technical and commercial capabilities. Moreover, the trade and regulatory regimes have generally affected regions off-Java adversely, to the extent that they impose an implicit tax in the former case (since most of the highly protected activities are on Java) and a centralising bureaucratic bias in the latter example. This is a clear case where regulatory reform works to the benefit of these outlying regions.

In the case of Malaysia the *Second Malaysia Plan, 1971–75*, first enunciated an explicit regional development focus (Johari and Chang 1990). This was part of the ethnic restructuring which took effect under the New Economic Policy. In fact, of course, ethnic and regional inequalities were closely correlated, since the poorer West Malaysian states in the east and north are also predominantly Malay, in contrast to the higher proportion of non-*bumiputera* in the wealthy industrial west states. Initially, such regional planning tended to be rather indiscriminate, with its emphasis on across-the-board decentralisation, growth poles, new townships, and Regional Development Authorities. In Malaysia's more decentralised federal structure, moreover, it was possible for state

16 There is a large literature on various aspects of regional finance in Indonesia. Major references over the past decade include Azis (1990, 1992), Booth (1988), Devas and Associates (1989), Ravallion (1988) and Shah, Qureshi and Associates (1994).

governments to offer additional fiscal and other incentives. Under the 1970s thrust, the two East Malaysian states were to be more integrated into the national economy, although initially at least planning in these states was based heavily on the West Malaysian approach, notwithstanding differences in resource endowments and ethnic composition (Lim 1986). The growth of Kuala Lumpur was to be slowed down, with the big thrust to be in the east coast states. The heavy industry strategy, which got underway in the late 1970s, also contained an implicit regional thrust, to the extent that there was a focus on the east coast states. Conversely, the establishment of industrial estates in the more developed west coast region, and the granting of subsidies to these estates, indirectly conflicted with regional equity goals.

The analysis of one such regional program, centred on the district of Pahang Tenggara, by Higgins and Savoie (1995:350–53), is instructive. The first author was involved in the establishment of the program in the 1970s, followed over a decade later by additional field inspections. The scheme's attention to infrastructure provision is commended, as is the quality of its planning staff. But the retrospective assessment offers two crucial, interrelated judgments which are no doubt relevant to other programs. First, the program was too ambitious in its targets, especially those relating to resettlements, which were less than 50 per cent achieved. Secondly, the original plan underestimated the speed of Malaysia's economic growth and structural adjustment. The region is now characterised by labour scarcity, and the major 'resettlement' which is taking place is principally illegal Indonesian migration.

By the mid-1980s, with 15 years of experience and a tighter fiscal constraint, the Federal Government began to re-evaluate its regional strategies, just as its ethnic restructuring objectives were being reviewed. The objective of reduced interregional disparities remained, but a less indiscriminate approach was adopted. Rather than attempting to promote decentralisation across all regions, region-specific obstacles to growth were to be addressed. Although considerable regional inequality persists, the Malaysian record has by and large been a success story. It is difficult to escape the conclusion that this success is due primarily to rapid overall growth; to the spread of high-quality infrastructure; to the avoidance of high manufacturing protection and the corollary of discrimination against agriculture (indeed, rice has been tariff-protected, and rubber and other cash crops assisted through extension programs); and to needs-based social policies, albeit within an ethnic framework.

The Philippines, by contrast, is a more complex story. It has a history of capital city concentration which is stronger than either Indonesia or Malaysia. During the 1980s the economy was stagnant, and the central government's budget—particularly the all-important public works and investment budget—was crippled. Moreover, the regional policy regime has not been as consistent as in the other countries, and so it is difficult to judge the overall policy impacts.

Like its neighbours, the government began to pay more attention to sub-national development issues in the 1970s, particularly following the declaration of Martial Law. From 1972, several Integrated Area Development schemes were initiated, particularly in poorer regions, and Regional Development Councils were established. The general assessment of these programs is mixed, for they occurred in the context of a regime which was in other respects extending the grip of central authority, and which introduced several infamous trading and processing monopolies, some of which had serious local ramifications. In any case, these initiatives began to peter out in the early 1980s, as government and foreign aid funding dried up. The avowedly democratic Aquino administration was determined to remove the vestiges of the Marcos regime, and in the case of regional policy this took the form of measures to promote greater decentralisation and regional autonomy. A Local Government Code was promulgated, which specifies the means by which central government funds are to be allocated. The new system also provides considerable fiscal freedom to local authorities, including the power to levy and vary a range of taxes, and to borrow.

Although the new arrangements are still in embryonic form, three features stand out. First, centre–regional financial reform, however sophisticated the framework, will have little beneficial effect as long as national economic performance remains sluggish. The dilapidated state of much of the Philippines' physical infrastructure is arguably the most serious impediment to regional development. Fine-tuning financial arrangements hardly helps if the national capital works budget is inadequate. Second, the country is a good illustration of the proposition that trade and regulatory reform invariably benefits the 'periphery' over the capital city. This is because such interventions almost always discriminate against agriculture through the familiar tariff and exchange rate effects. An additional factor in the Philippine case was that irrigated rice and corn, located disproportionately in the rich Central Luzon and Southern Tagalog regions, received more assistance as compared to dry upland farming in more remote regions. It is too early to assess the effects of policy reforms since the mid-1980s, which are in any case incomplete. But it appears that Manila's economic dominance may have peaked, and that alternative economic centres such as Cebu may be displaying more dynamism now that the interregional playing field is more level.

A final observation concerns the political economy of decentralisation and the appropriate mix of responsibilities between central and local authorities. Notwithstanding Manila's pre-eminent position, historically central authority in the Philippines has been weak. In many regions, local families have effectively governed regardless of central government edicts. Indeed, one of Marcos' avowed objectives at the declaration of Martial Law was to push aside the 'old oligarchs', many of whom derived their authority from regional power bases. In the return to regional autonomy, there is now a real concern that the 'feudal warlord' problem (to cite Lim 1992:16) will re-emerge. It is feared that the newly created Local Government Units lack the administrative capacity to deliver effective management; that some are already accumulating large arrears with financial institutions; that they are subject to less scrutiny, from parliamentary and press investigation; and that they will be more vulnerable to the capricious intervention of powerful local political figures. In an understandable attempt to avoid a repetition of the Marcos excesses, the policy pendulum may have swung too far, too quickly away from central authority. The Philippines experiment therefore deserves close scrutiny as a test case in decentralisation.[17]

Thailand has the least developed regional policy framework, perhaps understandably since there are no ocean divides and it is the most geographically compact of the four countries. Major policy concerns focus mainly on the disparities between Bangkok and the rest of the country, on the continuing viability of Bangkok as an efficient functioning economic unit, and on the concentration of poverty in the Northeast region. As Medhi (1992) points out, the Fifth Plan (1982–86) was the first to contain an explicit regional emphasis, albeit in the context of an assault on rural poverty. In 1980 the Rural Job Creation Program was initiated, targeting infrastructure works in poorer regions. Subsequently, in 1987 the 'Green Esarn' (the phrase meaning 'Northeast' in Thai) project was launched with Royal patronage. This program focused on natural resource development and preservation in the Northeast. (Some fiscal initiatives have also been introduced with an explicit regional target.) The two programs have received considerable government support, and constitute the largest budgetary item apart from routine expenditures and some very large capital expenditure projects. Medhi (1992) judges them to be quite successful in generating supplementary income opportunities in poor regions, notwithstanding problems of excessive centralisation, and abuse in the form of local patronage and corruption.

Conclusion

In sum, the Southeast Asian record of regional development is a reasonably good one in some cases. Serious challenges remain, but over the past two decades at least there have been no major instances of sustained sub-national deterioration in *absolute* levels. It is clear that national rates of development have been the principal arbiter of performance at the sub-national level. Even the better performing regions of the Philippines, for example, have a record which is much inferior to Indonesia's lagging provinces. This is one of the key lessons from the ASEAN record: except in countries characterised by very high levels of political autonomy and fiscal decentralisation, regions cannot grow much faster than the national economy.

17 The chapters of the Lim and Nozawa eds (1992) volume contain extensive discussion of these issues. See for example those by Lim, who provides a convenient summary, and Lamberte and Manasan on financial and fiscal decentralisation.

It was emphasised above that the dynamics of regional development are still poorly understood, and that there is no single formula which enables sub-national economic performance to be explained with any precision. But it seems clear that several factors explain the reasonably good ASEAN outcomes. First, governments have generally implemented programs on a nation-wide basis: roads have been constructed according to national infrastructure plans; education has been provided on a national basis. Improved infrastructure and education have enabled the poor to move in search of better opportunities. Second, while it is easy enough to point to all manner of distortions in public policies, ASEAN governments have avoided the worst excesses found in some other countries. There have been pro-metropolitan biases for example, but capital cities still suffer from the chronic under-provision of services, and trade and regulatory reforms are gradually diminishing the distortionary impact of policy in these areas. Third, no government in the region has a clearly articulated and implemented regional policy, much less one which aims specifically at a measure of fiscal equalisation. But there have been some interventions which have assisted poorer regions. For example, Indonesia's policy of central government control of mineral resources has ensured that the benefits of the oil boom were spatially dispersed. Malaysia's goal of ethnic restructuring indirectly favoured poorer regions, particularly in the northern and eastern states of West Malaysia, to the extent that these were also Malay-majority regions. It is not obvious that government programs to assist the poor in Eastern Indonesia and Northeast Thailand have had a major impact, but at the margin they have assisted.

What light does the ASEAN record shed on the three paradigms discussed at the beginning of this paper? The major contribution of governments in this area has been to make markets work more effectively, and to promote national integration. Poor regions clearly benefit from such a strategy. Better infrastructure reduces the differential between farm-gate and market prices for small farmers, by lowering transport costs and injecting more competition in marketing channels. The costs of mobility for the poor in search of better employment opportunities are also lowered. Moreover, there is no evidence, with the possible exception of Thailand, that liberalising reforms harm poorer regions; indeed, to the extent that past interventions discriminated against such regions, reform may actually help them. For these reasons, the 'modified neoclassical paradigm', which emphasises a measure of fiscal equalisation combined with the nation-wide provision of public goods performs fairly well. Within this framework, however, there is obviously scope for reform. The challenge for governments is to enhance the benefits of sub-national diversity by encouraging greater decentralisation and local autonomy, by removing existing policies which discriminate against (often poor) regions, but which put in place mechanisms for fiscal equalisation and the achievement of nation-wide socioeconomic targets.

One might be tempted to advocate a simple neo-classical solution of allowing—or even encouraging—the poor to move out of disadvantaged regions. To some extent this is already happening. As we have seen, population growth is low in all poorer regions, such as Bicol and Eastern Visayas, Eastern Indonesia, the Northeast of Thailand, and the northern and eastern regions of West Malaysia. Most of this low growth is due to out-migration. But a strategy of simply allowing outward movement is inadequate for a number of regions. First, the populations are too large to be neglected. Thailand's Northeast, for example, constitutes over one-third of the national population. Second, such a strategy imposes further strains on already over-loaded metropolitan infrastructure. It is in conflict with the goal of spatial dispersal, as for example in Indonesia's *transmigrasi* policy and efforts in the Philippines and Thailand to reduce chronic capital city congestion. It is also inconsistent with recent initiatives to promote cross-border economic cooperation, for example in the BIMP–EAGA proposal, which takes in Sulawesi, Mindanao, and Sabah, all relatively neglected regions. Third, imaginative government policies can actually promote efficient and viable development in these regions, building on local comparative advantage, while avoiding programs which lock resources into an involutionary cycle of low productivity and incomes. Local public works programs can create employment in slack agricultural seasons while generating obvious economic benefits. In Thailand, for example, lower wages and land prices, combined with some fiscal incentives, are inducing firms to move out of Bangkok, as noted above. In the Philippines, Cebu is emerging as an attractive commercial alternative to Manila. Some parts of Eastern Indonesia have much potential in the areas of tourism, fisheries, livestock, and cash crops. Singapore's spillover is creating new opportunities in adjacent areas of Indonesia and Malaysia.

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