

# Thinking ASEAN

## From Southeast Asia On Southeast Asia

+  
INFOGRAPHIC  
2018 Asian Games  
Energy of Asia

*South Korea New  
Southern Policy:  
what should be the  
priorities?*

*EU palm oil  
ban to ASEAN  
and why it  
matters*

*Financial development  
and economic per capita  
growth of ASEAN-5: a  
static panel analysis*



# Contents

---

<b>A Note From the Editor</b>	<b>1</b>
<b>Articles</b>	<b>2</b>
South Korea New Southern Policy: what should be the priorities?	2
EU palm oil ban to ASEAN and why it matters	5
Financial development and economic per capita growth of ASEAN-5: a static panel analysis	9
<b>Infographic</b>	<b>15</b>
2018 Asian Games Energy of Asia	15
<b>ASEAN Round-Up</b>	<b>18</b>
Cave rescue highlights plight of Thailand's stateless people	18
ASEAN affirms commitment to disaster risk reduction, prevention	19

# A note from the editor

Dear readers:

Welcome to the July 2018 issue of the monthly Thinking ASEAN!

For many in Southeast Asia, football commands a following bordering on the fanatical. From Brunei Darussalam to Vietnam, football fans all over the region were united in staying up until the early morning to watch their heroes compete on the greatest stage that is the FIFA World Cup in Russia. However, it was another footballing story that united Southeast Asians and arguably the world: the plight of 12 young boys and their coach from the 'Wild Boars' football team who had ventured into a cave in Thailand and were trapped for two weeks after it was inundated with heavy rain. The bravery and heroism of those involved in the rescue effort cannot be underlined enough and we are thankful that they all made it out alive, safe and well. Unfortunately one former Thai Navy SEAL lost his life and we pay tribute to the memory of Sgt. Major (ret.) Saman Gunan. He truly represents the best of ASEAN!

Away from football, we present to you three articles, the first from The Habibie Center's very own Executive Director Rahimah Abdulrahim. Her article takes up the topic of the Republic of Korea's (ROK) 'New Southern Policy' and follows on from a conference she attended in Seoul earlier this year.

Our second article is by Tiara Amadia, an independent researcher based in Jakarta on 'EU Palm Oil Ban to ASEAN and why it matters.' Noting that Indonesia and Malaysia are two of the largest palm oil producers in the world her article dives into the different perspective of different actors in this sensitive topic.

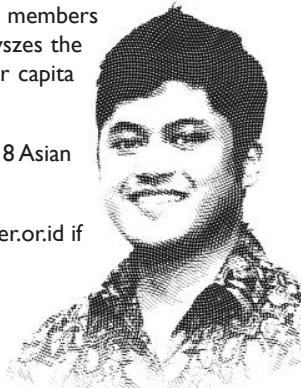
Our last article is by Shahnaz Natasya Arina and Tifani Putri Shafira Fauzal, Department of Economics, Faculty of Economics and Business, Universitas Indonesia who write on 'Financial Development and Economic Per Capita Growth of ASEAN-5: A Static Panel Analysis. Noting that ASEAN was established to help its members prosper by facilitating economic cooperation, the article analyzes the relationship between financial development and economic per capita growth among the five founding members of ASEAN.

As usual, we present an infographic that this month covers 2018 Asian Games Energy of Asia.

Don't hesitate to drop me a line at [thinkingasean@habibiecenter.or.id](mailto:thinkingasean@habibiecenter.or.id) if you have comments, input, or prospective submissions.

Happy reading!

Best regards from Jakarta



## From Southeast Asia On Southeast Asia

*Thinking ASEAN* is a monthly publication that aims to provide insightful, cogent and engaging perspectives on issues central to contemporary Southeast Asia and the ASEAN member states. It is a product of The Habibie Center, with the generous support of the Republic of Korea's Mission to ASEAN.

The content of *Thinking ASEAN* does not reflect the official opinion of The Habibie Center or institutions related to the publication. The Habibie Center was founded by Indonesian President Bacharuddin Jusuf Habibie in 1999 as an independent, non-governmental and non-profit organization to promote the democratization and modernization of the country.

Responsibility for the information and views expressed in *Thinking ASEAN* lies entirely with the author(s). For comments, suggestions and prospective contributions, the Managing Editor of *Thinking ASEAN* can be reached at [thinkingasean@habibiecenter.or.id](mailto:thinkingasean@habibiecenter.or.id).

### Project Supervisors

**Rahimah Abdulrahim**

Executive Director,  
The Habibie Center

**Hadi Kuntjara**

Deputy Director for Operations,  
The Habibie Center

### Editor in Chief

**A. Ibrahim Almuttaqi**

### Thinking ASEAN Team

Askabea Fadhilla

Fina Astriana

Muhamad Arif

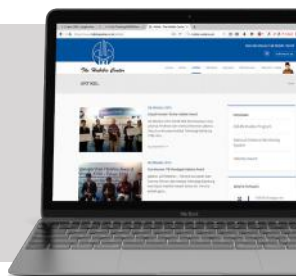
Hana Hanifah

Lany Sekar

Vierna Tasya Wensatama

Wirya Adiwena

FIND OUR UPCOMING  
AGENDA ON     
@HABIBIECENTER



The Habibie Center

The Habibie Center was founded by Bacharuddin Jusuf Habibie and family in 1999 as an independent, non-governmental, non-profit organisation. The vision of The Habibie Center is to create a structurally democratic society founded on the morality and integrity of cultural and religious values.

The missions of The Habibie Center are first, to establish a structurally and culturally democratic society that recognizes, respects, and promotes human rights by undertaking study and advocacy of issues related to democratization and human rights, and second, to increase the effectiveness of the management of human resources and the spread of technology.

# South Korea New Southern Policy: What Should Be The Priorities?



**South Korea Modern**

Source: pxhere/CC0 Public Domain



**Rahimah Abdulrahim,**  
*Executive Director of The Habibie Center*

President of the Republic of Korea Moon Jae-In announced a New Southern Policy (NSP) initiative during his visit to Indonesia in November 2017. The policy aims to strengthen ties between South Korea and ASEAN. During his visit, President Moon stated that, “Korean diplomacy in Asia has been more toward Japan, China and Russia. But I see that it should expand to new horizons.”<sup>1</sup>

South Korea is not alone in setting their sight to Southeast Asia.

The NSP comes amidst a wave of countries who look to Southeast Asia as a strategic partner. Australia has recently concluded the Australia – ASEAN Special Summit, while others have formulated their own policy framework to get closer to ASEAN: India with a ‘Look East’ policy, Taiwan with a ‘New Southbound’ policy. Furthermore, ASEAN Member States also factors significantly in policy frameworks that signals major power competition in the region, including China’s ‘Belt and Road Initiative’ and the US led ‘Free and Open Indo-Pacific Strategy’.

Indeed, ASEAN is in the spotlight. But what makes the ASEAN—and the Southeast Asian—region important? What kind of cooperation would come from a New Southern Policy?

### It’s the political-economy

ASEAN continues to strengthen its economic connectivity with the world, and the world has taken notice. In this Asian century, ASEAN’s economic potentials as the world’s fifth largest economy shows promising business and investment opportunities. As a market, countries in the region have more than 600 million people. It is not surprising to see Pricewaterhouse Cooper predict that many countries in the region will rise as the world’s biggest economies by 2050: Indonesia will become the fourth biggest global economy, while Malaysia, Thailand,

the Philippines, and Vietnam will be in the top 25.<sup>2</sup>

Indeed, ASEAN Member States have a large potential as both markets to sell products and services as well as manufacturing hub.

In the midst of this is South Korea. The country already has a strong presence in the region. South Korea’s soft power performs strongly in the region, pushed by the Korean Wave. K-Pop artists have amassed a large following, while K-Drama, Korean television series, are watched by many. In social media, their fans are also active on all the major social media channels: Facebook, Twitter, Instagram.

However, more than just K-Pop, South Korea has also been a reliable economic partner for ASEAN. South Korea has been one of the biggest investors in ASEAN with an investment portfolio that continues to grow. In 2017 alone, South Korea recorded a strong USD 6 billion investment in various ASEAN Member States in 2017, putting them as the top 5 investment partner in ASEAN with the EU on the top of the list.<sup>3</sup>

More specifically, they have also become the largest investment partner for Viet Nam, with strong contribution in the manufacturing sectors. Samsung, a South Korea based corporation that is in the Fortune 500 list, alone has invested a cumulative USD 17 billion in the country. Its factories in Viet Nam are responsible for producing a third of Samsung’s global output. Samsung’s activities in Viet Nam has The Economist dubbing the company as the biggest firm in Viet Nam.<sup>4</sup>

Furthermore, South Korea – ASEAN relations is also mutually beneficial. In 2016, Viet Nam has been recorded as the third largest export destination for South Korea with USD 32,6 billion, only below China (USD 121 billion), and the United States (USD 70,1 billion).<sup>5</sup> With this as a modality, South Korea can further tap into the growing market in ASEAN. This

will allow them to diversify their trade portfolio and reduce dependence with any single trading partner.

Such expansion will also be good for geopolitical reason.

Quite recently, economic issue was at the heart of a diplomatic stalemate between China and South Korea. China protested South Korea plan to install an anti-ballistic missile system in South Korea by implementing what media has called ‘unofficial’ sanctions.<sup>6</sup> During the 16 months-sanctions period, Hyundai’s sales in China dropped 64 per cent in the second quarter of 2017, while Lotte’s supermarket sales in China fell 95 per cent over the same period. Meanwhile, Chinese tour groups were not allowed to go to South Korea, resulting in an estimated revenue loss of US\$15.6 billion in 2017.<sup>7</sup>

In the face of this pressure, South Korea finally agreed to stop their plan to deploy the anti-ballistic missile system.

In this connection, the NSP can also be seen as a South Korea response to contemporary geopolitical dynamics in the region. Indeed, ASEAN is an important strategic partner to have for more than just economic reasons. ASEAN is in the heart of an interconnected web of regional architectures through ASEAN Plus mechanisms that facilitate strategic dialogue with certain partners, as well as through the East Asia Summit and ASEAN Regional Forum. These forums allow for all of the major powers in the region to discuss the directions that they would like to take.

As an increasingly active middle power, South Korea is a natural fit for a regional architecture that is centered around such forums. The strength of a middle power lies in the heart of their creative use of diplomacy in an environment that fosters negotiation and moderation. Middle powers thrive in constructive cooperation. This is a natural fit for ASEAN norms of amity and cooperation.

The policy aims to strengthen ties between South Korea and ASEAN. During his visit, President Moon stated that, “Korean diplomacy in Asia has been more toward Japan, China and Russia. But I see that it should expand to new horizons.”

However, the NSP does not exist in a political economic vacuum. To truly benefit from all that ASEAN has to offer, the NSP also needs to take into account the challenges that ASEAN is facing. Central among this challenge is ensuring ASEAN centrality amidst geopolitical dynamic and internal differences. Issues such as the South China Sea disputes or the Mekong river governance have always been a point of contestation among the involved Member States. The involvement of external parties who do not always share the ASEAN Way of diplomatic resolution under the ASEAN umbrella is also a cause of concern.

To truly succeed in implementing the NSP and reap the benefit of cooperation with a united ASEAN, it is important that the policy should also try to facilitate ASEAN in answering these challenges. The NSP should therefore put priorities in issues that strengthen ASEAN, such as promoting connectivity, narrowing development gap, and strengthen people-to-people relations.

### Conclusion

The New Southern Policy has the potential to bolster South Korea's presence in Southeast Asia. While the country already has one foot strongly standing inside the

region, this attempt would be able to focus their efforts better in promoting a mutually beneficial relationship.

The combination of their strong presence in the region and a large potential market will allow for South Korea to further expand their economic activities in the region. South Korean companies will be able to expand their businesses across Southeast Asia, while increased investment will help ASEAN Member States to develop their economies further and truly realize their potentials. A focused policy framework like the NSP will help ensure sustainable economic engagement to reach this goal. A mutually beneficial economic partnership will allow for both partners to better face contemporary challenges.

At the same time, South Korea also need to take into account other challenges that ASEAN is facing, especially those that threaten the existence of ASEAN as an institution that promotes peace and cooperation in the region. In this regard, South Korea should also invest in development projects that aim to strengthen ASEAN. Indeed, the key to ensure that ASEAN is relevant in this changing world is to first ensure that ASEAN matters to its members.

### End Note

1. Reuters. (November 9, 2017). “South Korea's Moon unveils new focus on Southeast Asia”. Retrieved from <https://www.reuters.com/article/indonesia-southkorea/south-koreas-moon-unveils-new-focus-on-southeast-asia-idINKBNID90OR>
2. PwC. “The world in 20150”. Retrieved from <https://www.pwc.com/gx/en/issues/economy/the-world-in-2050.html>
3. ASEAN. 2017. “ASEAN Investment Report 2017”
4. The Economist. (April 12th, 2018). “Why Samsung of South Korea is the biggest firm in Vietnam”. Retrieved from <https://www.economist.com/asia/2018/04/12/why-samsung-of-south-korea-is-the-biggest-firm-in-vietnam>
5. Observatory of Economic Complexity. “South Korea”. Retrieved from <https://atlas.media.mit.edu/en/profile/country/kor/>
6. SCMP. (November 18, 2017). “China wins its war against South Korea's US THAAD missile shield – without firing a single shot”. Retrieved from <https://www.scmp.com/week-asia/geopolitics/article/2120452/china-wins-its-war-against-south-koreas-us-thaad-missile>
7. Ibid

# EU Palm Oil Ban to ASEAN and why it matters



**Palm Oil Production**

Source: *gettyimages*



**Tiara Amadia,**  
*Independent Researcher based in Jakarta*

**T**he European Union (EU) drafted and approved a new legislation to ban the import of biofuel from crops on land in January 18, 2018. The revised energy directive aims to distance the EU away from the extensive damage caused by palm oil, citing how biodiesel produced from palm oil was three times more polluting than traditional diesel. Members of the European Parliament (MEPs) say that a ban is needed to avoid missing renewable targets related to deforestation and endangerment of animals. It has voted to ban biofuels made from vegetable oil by 2020, to prevent the EU's renewable transport targets from contributing to deforestation. The EU's due diligence regulation would involve mandatory disclosure of information on deforestation-proofing of financial investments, and lower import duties for approved commodities.

On June 24, 2018, the EU suspended the implementation of a policy that would have banned use of palm oil for biofuel in 2020 and extended it for 2030. By then, it would have expected to complete the ban of palm oil. The new policy will start reducing crude palm oil imports in 2023 before the complete ban in 2030. The deal states that at least 14% of transport fuel must come from renewables by 2030, and first generation biofuel capped at 2020 levels. The share of advanced biofuels must be at 1% and biogas at 3.5% in 2030. Until then, palm oil will be kept at its current levels. The deadline extension will give palm oil producer nations more time to improve palm oil management and to seek markets in other countries.

The 2009 renewable energy directive set the target that 20% of its energy and 10% of its transportation should run on renewables. However, the sustainability of the palm oil industry is questioned when studies went more in depth with the environmental implications of palm oil crop production.

Overseas demand for palm oil, soy

and other agricultural products are key drivers of illegal forest clearances in Indonesia, Malaysia etc. Reliance of palm oil has intercepted daily life, including itself in products ranging from food to candles. The indirect effects of palm oil production leads to a clearing of rainforests and contribute to the endangerment of native species. The publicised cause for this ban is to eliminate the use and demand for unsustainably procured palm oil. It is also said that the ban will give leeway for European-produced vegetable oils, growing local businesses.

### Response from EU Countries

EU countries have provided various responses to the issue. On the one hand, there has been a wide disagreement on the ban by multiple European countries, citing possible trade discriminations. On the other hand, the public in some of these countries have also shown support for the ban as it is hoped that it will reduce palm oil consumption and henceforth imports, while instead strengthening the European biofuel industry.

Indeed, European ethanol producers have lobbied a campaign to support locally produced biofuels instead of phasing out all crop-based biofuels. The new legislation has also voted to ban palm oil subsidies but, in reality, will not change the financial incentive for crop-based biofuels. While palm oil can no longer receive subsidies, other biofuels based on food crops still can. Since the market for all these crops are linked, farmers will still have an incentive to deforest land in order to grow it. If the share of palm oil consumption goes down but the mandate for biofuel targets remains, production will be covered by other vegetable oils. In this context, the EU's ban proves to be another way to promote local commodities at the expense of palm oil since it controls 80% of the global rapeseed, soybean and sunflower seed businesses. When farmers clear old growth trees in rainforests to grow biofuel crops, this releases built

up amounts of carbon. The EU target of transport fuels has converted land use from crop cultivation to biofuel, driving up food prices and threatening food security.

France is a good example in showing such contradictory stances on the palm oil ban. It recently agreed to a biorefinery that will import soybean and palm oil at the cost of massive deforestation. The French government has won negotiations saying that it has agreed to significantly reduce the amount of palm oil and implement stricter certifications of their origin but, in practice, the constraints are minimal. This has been met with concern from French farmers, since Total, which is the largest energy company in France, favours palm oil over rapeseed (French produced).

The public responded on June, 10 2018 when French farmers began a blockade of oil refineries and fuel depot. The blockade is aimed at pressuring the government to curb palm oil use. They believe that palm oil is cheaper than rapeseed oil and farmers said that its growing use added to its competitive disadvantage, voicing farmer discomfort at unfair competition.

At the same time, Sweden joins France in saying that the palm oil ban is perceived as discrimination. On January 29, France understood the importance of palm oil for Malaysia's economy and is not in favor of the ban. Sweden agrees to the statement that "it is not fair that the EU want certification before palm oil can enter the EU market". It is against any kind of discrimination, including any regime that discriminates against other products. It recognises export importance to Malaysia and Indonesia and deems it unfair for their developing economies.

Meanwhile, as the UK has significant trade with Asia, it would be the hardest hit for the ban. 34,000 UK jobs and an annual GBP 3.3 billion trade circulation would be at risk due to the ban. There is

fear that retaliation from Asian countries if the ban were to hit the country would cut UK exports and put jobs at risk.

This fear is translated into the UK's disregard for the EU palm oil ban by negotiating deals that would boost imports that pushes for a hike in only nominally 'sustainable' palm oil imports that are allegedly linked with an increase in deforestation. Environmental organizations in the UK raised question on Indonesia's commitment to stop deforestation and criticised the British government for "putting profits over people".

The Italian government said that it was against any form of prejudice on the commodity of its new EU directive. It will continue to promote a fair solution that accounts for Malaysia's concerns. It firmly rejects any discriminatory approach specifically targeting single source of biofuel. It is the second largest palm oil importer in the EU, along with the other countries who have opposed the ban. Although it agrees with the objective of fostering sustainable use of biofuel, it will continue dialogue with Malaysia to share

the best practices and cooperation on how to handle the directive.

Spain declares its opposition towards the resolution as it would single out major biofuel producers like Malaysia. It said that the resolution violates free trade aspirations of the WTO. It said that any alternative to replace palm oil would backfire at higher costs, and this increase would ultimately be borne by consumers. It joins Germany and the UK in speaking out, saying that palm oil clients in Spain would cooperate with Malaysia to address misunderstandings among consumers.

Finally, the Netherlands does not support discriminatory measures or differentiation between products, calling on dialogue between the EU and biofuel producing countries. It has been in talks with Indonesia and the EU on a comprehensive economic partnership agreement that considers the interest of both parties.

#### **Impact to ASEAN Countries:**

Malaysia, being one of the biggest

producers of palm oil to be imported to Europe, had warned that retaliation is in order against 'protectionist measures' like this. The livelihoods of more than 650,000 smallholders in rural Malaysia will be affected by the ban. In Malaysia, many communities depend on palm oil. Farmers had a street strike in Kuala Lumpur to protest against the ban. They believed that smallholder farms (who account for 40% of Malaysia's output) who were granted land by the government does not engage in land grabbing and/or deforestation practices unlike the claim by campaigners in Europe that stated palm oil production has caused massive illegal deforestation and risking the extinction of animals.

Furthermore, the EU's revision has prompted the country to threaten sanctions against EU goods and cancel GBP 5 billion worth of defence contracts for the UK. It is also worth noting that should the ban be implemented, other vegetable oils might be used in substitute to palm oil, like soybean which has proved to be environmentally destructive as well. Reports say that palm oil occupies 9.2 million hectares of land but substitutes

The EU's due diligence regulation would involve mandatory disclosure of information on deforestation-proofing of financial investments, and lower import duties for approved commodities.

## Facing economic threat to a large part of its population, Indonesia has sought the help of the Netherlands to work together in addressing the EU's biofuel ban.

such as soybean and rapeseed would require 10 times this amount of land.

Palm oil in Indonesia has supported the livelihoods of 16 million people, and is among the biggest contributor to the country's international trade. Facing economic threat to a large part of its population, Indonesia has sought the help of the Netherlands to work together in addressing the EU's biofuel ban. As the world's largest palm oil producer, it is imperative that Indonesia's needs are met in the economic partnership agreement with the EU. It is important to highlight that the palm oil ban will also hurt the livelihoods of many smallholder palm oil producers since small businesses own 50% of all palm oil plantations. Smaller players cannot afford to overhaul their working practices and focus on sustainability.

Indonesia and the EU are now negotiating a comprehensive economic partnership with a, hopefully quick, conclusion. President Joko Widodo has called out the EU to not discriminate against palm oil and would retaliate against discriminatory practices. The Trade Minister has also threatened to ban imports of certain products on individual EU countries as retaliation.

The ban would also weaken the EU's influence and hand more power to

China who is a large palm oil consumer. Beijing has signaled that it will increase Indonesian palm oil imports saying that it will consider raising this year's import quota by at least 500,000 tons. The new quota will help reduce Indonesia's dependence on European markets. This import is unlikely to pose the same level of sustainability requirements that European markets demand.

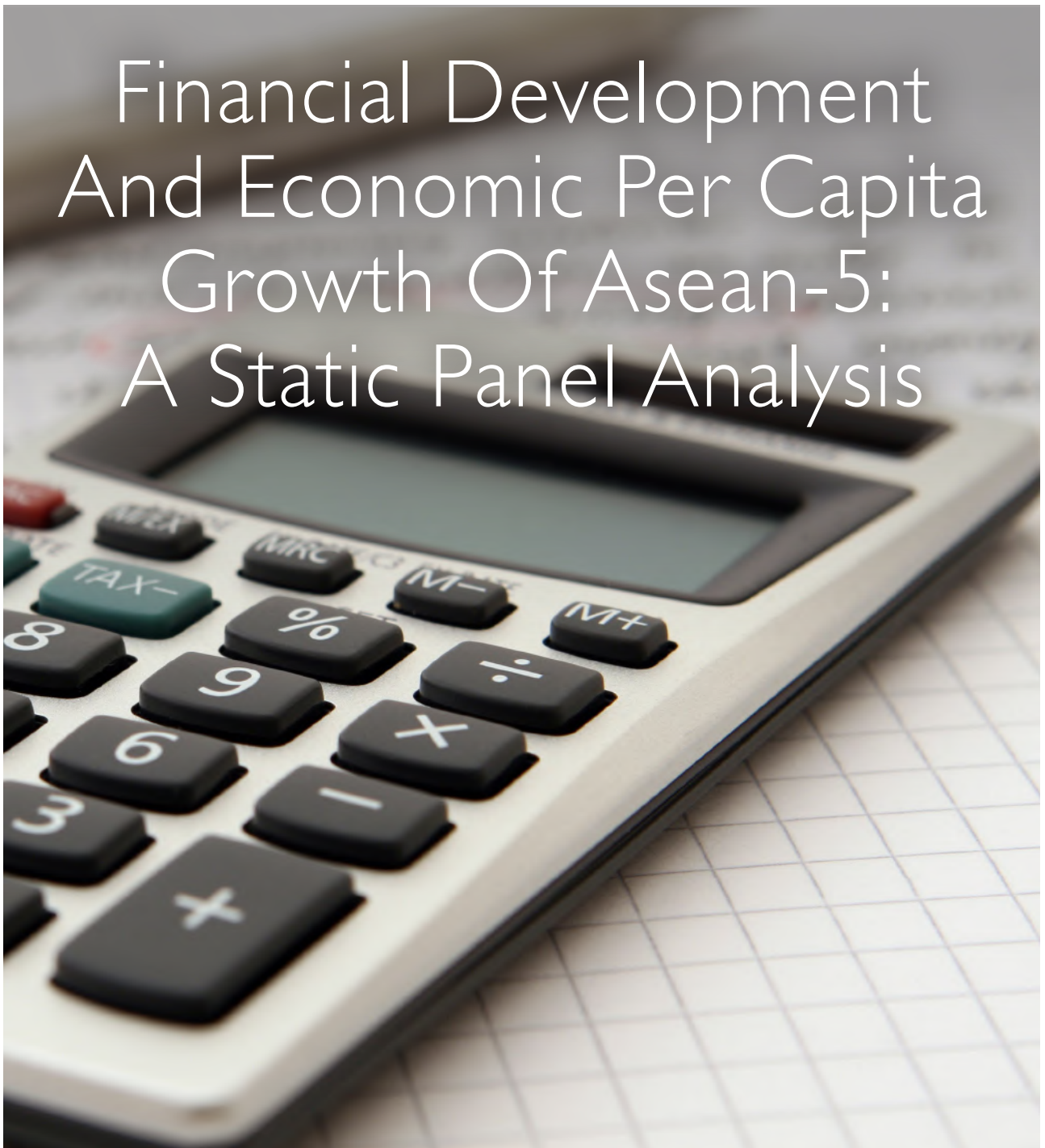
### Conclusion

Palm oil ban is likely to lower palm oil prices while at the same time open up demand from outside the EU and causing it to be exported elsewhere. Should the ban continue to be implemented this will widen the gap between palm oil and other vegetable oils in Europe, making users outside of the region to promote other vegetable oil alternatives to palm oils. At the same time, the ban is unlikely to decrease palm oil production. It is also unlikely to hinder palm oil related deforestation or improve livelihood of local communities as there are still potential markets for palm oil outside of Europe as well as markets for non-energy use of palm oil in the world. Amidst all these, it is the large scale palm oil producers who specialize and are certified to export to European markets that would have the largest economic impact when they lose on the European market during this period.

ASEAN countries impacted must prioritise sustainability to survive the ban. Collaboration with plantation owners and tougher rules within the industry would serve them well. Negotiations between large players and the government could result in the improvement of working conditions and sustainability practices to stay afloat amidst EU's renewed directive. At the same time, both parties should support smallholder farmers to ensure that they have the means to comply with sustainability practice.

In the end, it is safe to say that the EU palm oil legislation would continue to have many bumps on the road. Since the livelihoods of big producer states depend on palm oil fermentation, countries such as Indonesia and Malaysia will be sure to fight for their farmers and producers. However, this attention to sustainable palm oil could largely improve methods of resurfacing said resource and highlight the disastrous effects of illegal land clearing and endangerment of animals to the countries' government. Nevertheless, both sides of the situation should listen to each others' priorities and be aware of the effects, whether positive or negative, of this directive so it could be improved to satisfy both parties.

# Financial Development And Economic Per Capita Growth Of Asean-5: A Static Panel Analysis



**Financial Development**

Source: Pexels/CCO License



**Shahnaz Natasya Arina,**  
*Department of Economics, Faculty of  
Economics and Business, Universitas  
Indonesia*



**Tifani Putri Shafira Fauzal,**  
*Department of Economics, Faculty  
of Economics and Business,  
Universitas Indonesia*

Asia's current financial development can be considered less developed overall when compared to the western part of the world. According to Z/Yen Report of leading financial center (2015), four of the top ten financial centers in the world are located in Asia; Hong Kong, Singapore, Tokyo and Seoul. Singapore has a highly developed financial system compared to the neighboring countries within the Southeast Asian region. This study aims to analyze the relationship between financial development and economic per capita growth among the five founding members of ASEAN; Indonesia, Thailand, Malaysia, the Philippines, and Singapore. The organization of ASEAN aims to prosper through members' cooperation, the progress of joint effort and sacrifices toward economic prosperity, in particular, could be assessed commonly from GDP (Gross Domestic Product) growth or GDP per capita, of its member.

Financial development would be crucial to provide additional financing for emerging economies, which are in need of additional investment for the development of the countries. ASEAN

is a ten members association made up of Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Myanmar, Vietnam, Laos and Cambodia. The states are mostly emerging economies, except for Singapore, one of the 'Asian Tigers' that became a developed economy with exceptional economic growth and rapid industrialization. One ASEAN member, Indonesia, is also a country with the biggest Muslim population in the world. Moreover, Malaysia and Brunei have Muslim majority population. Therefore, these countries, especially Malaysia and Brunei have been able to specialize in Islamic financial center. The financial development could be customized according to the customs and traditions to target the participation a majority group within the population into financial market.

As noted, this research aims to analyze the relationship between financial development and economic per capita growth among five founding members of ASEAN; Indonesia, Thailand, Malaysia, Philippines, and Singapore. The World Bank has reported that the real GDP per capita of these five members are the top six amongst ASEAN members, over USD 1665.29 in 2014. For at least 10 years,

Singapore has maintained its position as the highest real GDP per capita among the group against Brunei, which is purposely excluded from the sample as the country only joined ASEAN later after its independence in 1984.

A panel data analysis from 1990 to 2015 gives long-run implication of financial development in these ASEAN-5 countries. Methodologically, the panel data of selected ASEAN countries will be processed with the fixed effect model for panel data. The econometric techniques will provide evidence to determine the relationship of finance development in growth promotion.

Although many studies provide evidence of positive impact of finance to growth, the threshold model has provided an argument against financial development. The model has shown a non-monotonic, rather than a linear relationship between finance and growth. Hence, excessive finance development could actually result in negative impact to the economy. Past crises, such as the global financial crisis 2007-2008 and sovereign debt crisis 2010 have indicated the vulnerability of those relatively more developed market to crises, whereas Asian countries has not

The organization of ASEAN aims to prosper through members' cooperation, the progress of joint effort and sacrifices toward economic prosperity, in particular, could be assessed commonly from GDP (Gross Domestic Product) growth or GDP per capita, of its member.

been directly impacted by those crises.

A study by Mishkin (2006) mentioned several factors which emphasize the importance of financial intermediation to enhance businesses financing. Firstly, economies of scale, which is possible through the existence of financial intermediations, could reduce or alleviate the transaction cost. Transaction cost includes both time and monetary cost which happen during a financial transaction. Secondly, the ability of financial intermediation to provide risk sharing, which reduce the risk for investor and the uncertainty of initial payment and interest income from investment. Financial intermediation and institutions customize and offer asset to meet particular characteristic of risk which would be attractive for potential investors. In addition to risk sharing activity, asset diversification would also diversify and decrease the risk for the investor, especially when the investment portfolio is being managed by professionals. Lastly, financial development alleviates the market imperfections, which includes asymmetric information, moral hazard, and adverse selection. Asymmetric information happens when the information between lenders and borrowers are different. Furthermore, market inefficiency could be reflected by the possibility of moral hazard, a situation under which there is a potential agent who would get advantage from giving inaccurate information. Another asymmetric information, which occurs before the transaction, is adverse selection. Investors usually do strict screening process prior to making any investment decision, due to the uncertainty in the market or loss of confidence for the market. These market inefficiencies would reduce savings and investments, which reduces output afterwards.

Beck and Levine (2004) shows evidence of both the positive long-run relationship between finance and growth and the long-

run causality from financial development to growth. A long-run relationship was also subsequently acquired by Rachdi and Mbarek (2011) using panel data of 10 countries from the OECD (Organization for Economic Co-operation and Development) and MENA (Middle East and North Africa). Samargandi, Fidrmuc and Ghosh (2014) contribute evidence of the non-monotonic relationship between finance and growth, that is to say finance development positively impact the economy until a certain threshold level. Additional finance development beyond the optimum level, might impact economic growth negatively. Rachdi and Mbarek (2011) tested the model using cointegration test and system GMM (Generalized Methods of Moments) to test for the causality. The result for panel data cointegration test and system GMM indicates a long-term positive and strong impact between financial development and economic progress in both OECD and MENA countries.

The model in this study is adapted from Rachdi and Mbarek (2011) with some modification to the indicators of some variables:

$$\ln GDP_{i,t} = \beta_1 + \beta_2 X_{i,t} + \beta_3 GV_{i,t} + \beta_4 P_{i,t} + \beta_5 FDI_{i,t} + \beta_6 \ln FOREX_{i,t} + \varepsilon_{i,t}$$

GDP is the logarithm of country i real GDP per capita (in USD) at time t.  $\varepsilon$  shows error term. Gross domestic product (GDP) has been considered as one of the best assessment of a country's economic performance. X represents control variables to include the impact of other possible variables on economic growth such as government expenditure, inflation, openness of local economy, and foreign exchange rate. GV is a control variable which represents the logarithm of government consumption to GDP of country i at time t. P, a control variable, measures the inflation of country i at time t using CPI (Consumer Price

Index). FDI (Foreign Direct Investment) represents the value of foreign direct investment as proportion to GDP. This variable controls for capital inflow from abroad, which should impact the overall output level in a country. Foreign exchange rate, FOREX, represents the value of local currency compared to US dollar in logarithm form. Financial development denoted by FD, of country i at time t, which in this study is indicated by liquid liabilities, M3, as percentage of GDP, previously used by Levine, Norman, Beck (2000).

Financial development would represent the ability of different financial intermediaries, both banks and stock markets, to satisfy its functions. Monetary aggregates such as M2 and M3 have been chosen as an indicator for finance development for many prior literatures. Khan and Senhadji (2003) argue two reasons that using M2 as percentage of GDP might be an inappropriate proxy of financial development in countries with underdeveloped financial systems. Firstly, high level of monetization might correlate with an underdeveloped financial system. Secondly, M2 represents the ability of financial intermediaries to facilitate financial transactions. Most researchers, such as Beck et al (2000); Favara (2003) and Deidda and Fattouh (2002), have chosen liquid liabilities, M3, which is a less liquid monetary aggregate. This study employs only one indicator for finance development due to the nature of collinearity between available finance development proxies.

As the panel data has a limited number of i and a wider time span, t, fixed effect model would be more appropriate to be implemented. The table 1. shows the outcome of processing panel data with fixed effect regression. The table summarizes coefficient, standard deviation, level of significance, and R-squared across models.

Variables	Result	Variables	Result
<b>M3</b>	<b>0.0009***</b>	<b>FDI</b>	<b>0.0072***</b>
	(0.0001)		(0.0012)
<b>GV</b>	<b>0.0115***</b>	<b>FOREX</b>	<b>-0.1425**</b>
	(0.0029)		(0.0186)
<b>P</b>	<b>0.0080***</b>	<b>Overall R<sup>2</sup></b>	<b>0.5136</b>
	(0.0003)		

Table 1. Regression Outcome

Regression result (\*\*\*, \*\*, and \* for 1%, 5%, and 10% level of significance respectively)

The model is able to explain the 51.36% variation of ASEAN-5 members' income per capita which is quite representative to be tested. All variables are significant within 5% level of significance. Looking at M3 which figures the financial development in the samples, every 1% increases can improve the income per capita of the ASEAN-5 for 0.09%. In the case of government expenditure, the positive relationship of government expenditure and GDP per capita implies that public spending on public goods by ASEAN-5 authorities is effective to enhance economy as individual welfare increases.

While in the general sense a stable price level is preferable among citizens, this condition could be detrimental to the economy. The result on price indicates that inflation could actually increase real income per capita of the ASEAN-5. Since inflation indicates an increase in money supply or an increase in overall price level, as there is more money in circulation, people are encouraged to spend money faster, which results in higher demand. High demand will be a good signal for the firms since they are willing to produce more and a good signal to recruit more workers thus reducing unemployment. A well-managed inflation could actually signal a healthy and a growing economy to businesses. Some government intervention might be necessary to manage the inflation without harming the

economy but create a sound condition for firms' production.

Looking at the significance and coefficient of FDI, it can be seen that the figure is just below 5% significant level. That might be due to the situation that ASEAN-5 openness to foreign capital inflow would positively contribute to the economy through additional employment opportunities, technological transfer, human resource development, and taxation benefit to the host country. That condition might help the economy to grow but still needs to be managed effectively through the proportions of government shares in FDI.

The real income per capita is being recorded in US dollar. Hence, appreciation of local currency in the ASEAN-5 could boost the economic per capita due to the higher purchasing power in US dollar. Therefore, with every dollar, individuals can purchase more goods and services during local currency appreciation. Individuals could purchase imported goods at a relatively cheaper price, which results increasing competitiveness for local businesses. Generally, depreciation of local currency would improve the economy though higher export volume and lower import volume. However, the result shows otherwise, that the depreciation of ASEAN-5 local currencies harm their economy, as the pass through to consumer price is lower than import prices. FDI and the exchange rate would both contribute to the level of competitiveness in the economy,

businesses would be forced to transform themselves to be an efficient, productive, and innovative businesses.

We can look back to the condition of ASEAN prior to 1997-1998 crisis. According to the impossible trinity, a country would only have two options of a fixed exchange rate, sovereign monetary policy and free capital flow. Most ASEAN countries had been on a fixed exchange rate regime until the 1997 Asia financial crisis, since when the countries started to adopt a floating exchange rate regime. Prior to 1997, most of the countries have managed to fix exchange rate system, an independent monetary policy, and a free capital flow resulting a crash in the system. If ASEAN decided to have a financial integration along with their financial development, ASEAN could lose some degree of sovereignty to manage monetary policy. This is a dilemma that might occurred even in a European Union member.

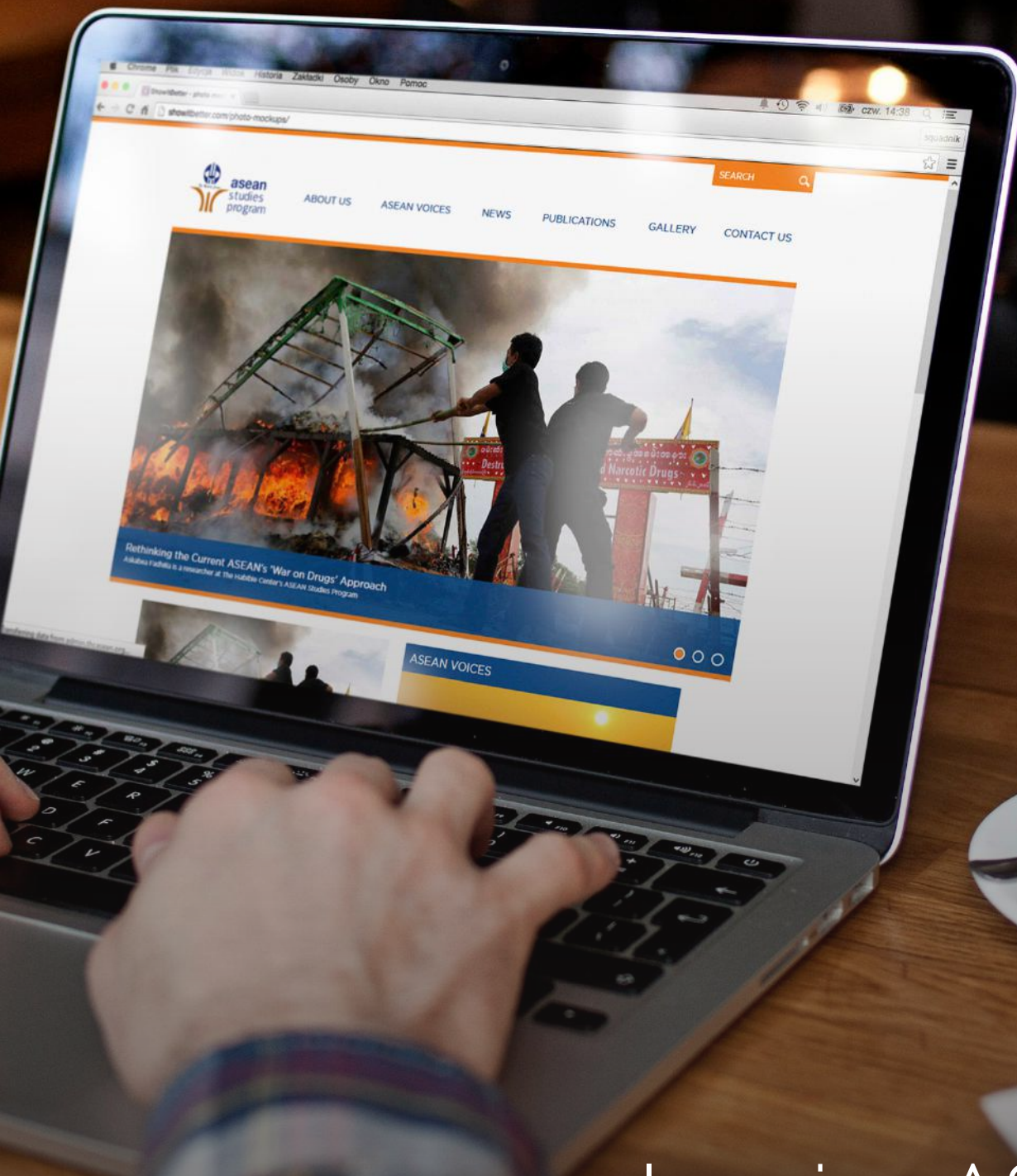
All control variables included have significant impact on growth. Government expenditure, which involves consumption for public goods, could enhance the economic per capita of the ASEAN-5. Foreign capital inflow from FDI would also positively impact per capita economy through a long-term investment, implying employment opportunities, human resource development, technological and knowledge transfer. Higher price level in the ASEAN-5 could increase income per individual. The power of local currency determines the relative constant income

per capita in US dollar; a weak purchasing power is associated with a depreciation of local currency against dollar.

ASEAN governments should seek to improve finance development to improve the economy. ASEAN financial development should be able to impose a better functioning financial institutions and financial market to satisfy the core functions as stated by Levine (2005). High Muslim population could be an indicator for a potential for Islamic finance development, such as in Malaysia and Brunei. A free capital flow from financial integration might lead to sovereignty drawbacks for ASEAN countries. An independent monetary policy might not be visible anymore as each country's policy might have impact to the other country. Therefore a gap in financial development, where one ASEAN country is more developed than the others, might exert some limitations for a possible economic expansion to the rest of ASEAN members.

## REFERENCES

1. ADB. (2013). The Road to ASEAN Financial Integration.
2. Abida, Z., Sghaier, I. M., & Zghidi, N. (2015). Financial Development and Economic Growth: Evidence from North African Countries. *Economic Alternatives*.
3. Beck, T., & Levine, R. (2004). Stock markets, banks, and growth: Panel evidence. *Journal of Banking and Finance* 28, 423-442.
4. Beck, T., Demirguc-Kunt, A., & Ross, L. (2003). Law and finance: why does legal origin matter? *Journal of Comparative Economics*, 31 (4), 653-675.
5. Beck, T., Levine, R. E., & Loayza, N. V. (2000). Finance and the Source of Growth. *Journal of Financial Economics* 58, 261-300.
6. Chowdhry, B., & Goyal, A. (2000). Understanding the financial crisis in Asia. *Pacific-Basin Finance Journal*, 8, 135-152.
7. Deidda, L. & Fattouh, B. (2005). "Concentration In The Banking Industry And Economic Growth," *Macroeconomic Dynamics*, Cambridge University Press, vol. 9(02), pages 198-219, April.
8. Favara, G. (2003). An Empirical Reassessment of the Relationship Between Finance and Growth. IMF Working Paper, 1-47.
9. Goldsmith, R. W. (1970). Financial Structure and Development. *The Economic Journal*, 365-367.
10. Gujarati, D. N. (2013). *Basic Econometrics* 4th ed. Singapore: McGraw Hill.
11. Habibullah, M. Z., & End, Y. (2006). Does financial development cause economic growth? A panel data dynamic analysis for the Asian developing countries. *Journal of the Asia Pacific Economy* 11, 377-393.
12. Iskandar (2011). Analisis Hubungan Perkembangan Sektor Keuangan dan Pertumbuhan Ekonomi Indonesia Periode 1990:Q1-2009:Q4 (Pendekatan Autoregressive Distributed Lag). Fakultas Ekonomi. Universitas Indonesia. Depok.
13. Khan, M., & A. Senhadji (2003), "Financial Development and Economic Growth: A Review and New Evidence," *Journal of African Economies*, 12(1), ii89-ii110.
14. King, R. G., & Levine, R. (1993). Finance and Growth: Schumpeter Might Be Right. *The Quarterly Journal of Economics*, 717-737.
15. LEITÃO, N. C. (2010) Financial Development and Economic Growth: A Panel Data Approach. *Theoretical and Applied Economics* Volume XVII, 15-24.
16. Levine, R. (2002). Bank-Based or Market-Based Financial Systems: Which is Better? *Journal of Financial Intermediation*, 1-30.
17. Levine, R. (1997). Finance and Growth: views and agendas. *Journal of economic literature* 35 (2), 688-726.
18. Levine, R., Norman, L., & Beck, T. (2000) *Monetary Economics* 46, 31-77.
19. Levine, R., & Zevros, S. (1998). Stock Market, Banks, and Economic Growth. *The American Economic Review*, 537-558.
20. Majid, M. S. A., & Mahrizal. (2007). Does development cause economic growth in the ASEAN-4 Countries? *Savings and Development* Vol. 31, 369-398.
21. Mankiw, G. N. (2005). *Principle of Economics*. Thomson Southwestern Press.
22. McKinnon, R. I. (1973). *Money and Capital in Economic Development*. Washington, DC: Brookings Institution.
23. Mishkin, F. S. 2006. Monetary Policy Strategy: How Did We Get Here? *Panaeconomicus, Savez ekonomista Vojvodine, Novi Sad, Serbia*, vol. 53(4), pages 359-38.
24. Modigliani, F. and Miller, M. (1958) *The Cost of Capital, Corporation Finance, and the Theory of Investment*. *American Economic Review*. 48(3). 261-297.
25. Rachdi, H., & Mbarek, H. B. (2011). The causality between financial and economic growth: panel data co-integration and GMM system approaches. *International Journal of Economics and Finance*, 143-151.
26. Romer, D. (2001). *Advanced Macroeconomics*. 2nd ed. McGraw Hill.
27. Samargandi, N., Fidrmuc, J., & Ghosh, S. (2015) Is the Relationship between Financial Development and Economic Growth Monotonic? Evidence from a Sample of Middle Income Countries. *World Development*, Elsevier, vol. 68(C), 66-81.
28. Schumpeter, J. (1911), *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and Business Cycle*. Cambridge Mass: Harvard University Press.
29. Shaw, E. 1973. *Financial Deepening in Economic Development*. New York: Oxford University Press.
30. Suryaningsih, T. K. A. 2009. *Perkembangan Intermediasi Keuangan dan Volatilitas Pertumbuhan Ekonomi Indonesia*. Fakultas Ekonomi. Universitas Indonesia. Depok.
31. Susanti, Hera, Ikhsan, M., & Widyanti. 1995. *Indikator-Indikator Makro Ekonomi*. LPFE – UI. Jakarta.
32. Todaro, M. P., & Smith, S. C. (2003). *Economic development*, 8th Edition. Boston: Pearson Addison Wesley.
33. Zhang, J., Wang, L., & Wang, S. 2012. Financial Development and Economic Growth: Evidence from China\*. *Journal of Comparative Economics*, 40(3): 393-412.



Imagine ASEAN  
at your fingertips  
**thcasean.org**



# ASIAN GAMES

2018 | Jakarta  
Palembang

**ENERGY OF ASIA**

45 countries  
competing in  
40 sports

Located in  
Jakarta and Palembang,  
Indonesia

E-sports will be present  
for the first time as  
demonstration sport  
with 6 game titles



## ASEAN ROUND-UP

Askabea Fadhillah is a Researcher of the ASEAN Studies Program of The Habibie Center



# Cave rescue highlights plight of Thailand's stateless people



Channel News Asia, 15 July 2018

<https://www.channelnewsasia.com/news/asia/thailand-cave-rescue-stateless-people-10530698>

MAE SAI, Thailand: On the Thai side of the mountainous border with Myanmar, where 12 boys and their football coach were rescued from a flooded cave last week, thousands of stateless people live trapped between countries with no access to some basic rights.

All of the boys and their 25-year-old coach, who make up the 'Wild Boars' soccer team, will be discharged from hospital next week following a three-day rescue that evoked international relief and joy.

### Why it matters:

In the midst of the FIFA World Cup 2018 euphoria, another soccer team in the remote part of Northern Thailand was fighting for their survival. 12 boys and one coach from the 'Wild Boars' soccer team were trapped for seventeen days in Tham Luang Cave. What was intended to be a fun team-bonding turned into a disaster when it began to rain, flooding the cave and sealing-off their escape route.

The rescue mission was dubbed as a display of human resilience and humanity at its finest—especially in a world where most of the recent tragedies have involved indifference towards others. Led by the Thai authorities, volunteers and experts joined the international effort coming from the UK, the US, Australia,

Finland, Denmark, Canada, China, and other countries.

Locals were also helping to the best of their abilities. Farmers living near the site sacrificed their rice crops to let water be pumped out from the caves onto their land. People from hundreds of kilometers away cooked and delivered food to the rescuers voluntarily. Not to mention those who pumped the water out of the cave, set up a medical tent, or even gave massage to the family of the boys in the rescue site.

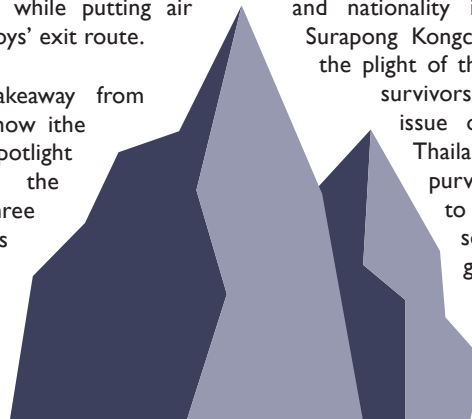
The saga came to an end when the 12 boys and their coach were brought out safely from the cave after almost three weeks of plight. However, the Tham Luang Cave rescue victory was not without tragedy. Despite the tremendous effort, the rescue unfortunately cost the life of a former senior Navy Seal, Saman Kuman. He died while putting air tanks along the boys' exit route.

One positive takeaway from this accident is how the international spotlight also brought the attention to three of the survivors' nationality status. Despite all the praises and the treatment that they

received from Thailand, coach Ekkapol Chantawong and two of the boys, Pornchai Kamluang and Adul Sam-on are technically stateless. Following the media reports of their plight, the three will receive legal assistance for nationality verification process, and they could expect to receive Thai citizenship within the next six months.

Located in the blurry border between southern China, Myanmar and Laos, Chiang Rai province has long been facing issues with ethnic minorities and their nationality status. Thailand indeed offers a better economic situation than those on the other side of the border. In Thailand, they are eligible for basic education and healthcare, but they have no access to financial services, property, or marriage license.

A prominent activist on human rights and nationality issues in Thailand, Surapong Kongchantuk, hopes that the plight of the Thai Luang Cave survivors could bring the issue of statelessness in Thailand to the public's purview in order to receive further solutions from the government.





## ASEAN affirms commitment to disaster risk reduction, prevention



6 July 2018

<http://asean.org/asean-affirms-commitment-disaster-risk-reduction-prevention/>

“ASEAN’s Deputy Secretary-General for Socio-Cultural Community, H.E. Vongthep Arthakaivalvatee, reaffirmed ASEAN’s strong commitment to reduce and prevent disaster risks, through various engagements at the 2018 Asian Ministerial Conference on Disaster Risk Reduction (AMCDRR) held on 3 – 6 July 2018 in Ulaanbaatar, Mongolia. In his official statement, the Deputy Secretary-General highlighted various dimensions of disaster risk reduction, such as gender mainstreaming, risk-informed shock responsive social protection, climate change adaptation, and disaster risk financing insurance”.

### Why it matters:

Southeast Asian countries are prone to natural disasters due to its geographical location. From 2004 – 2014, more than 50 percent of global disaster mortalities happened in ASEAN with total economic losses up to USD 91 billion.

Based on this condition, several agreements have been issued to further strengthen cooperation in disaster risk management. In December 2009, ASEAN Leaders issued the ASEAN Agreement on Disaster Management and Emergency Response (AADMER). The ASEAN Coordinating Centre for Humanitarian Assistance on Disaster Management (AHA Center) was also established in 2011 in order to be the regional hub for information and knowledge for disaster management. In addition, ASEAN Leaders endorsed



the ASEAN Vision 2025 on Disaster Management during the 3rd ASEAN Ministerial Meeting on Disaster Management in December 2015.

One of the challenges in implementing the AADMER is how to finance and mobilize necessary resources. Currently, each ASEAN Member States (AMS) contribute USD 30,000 per annum. However, the majority of funding is instead coming from ASEAN’s partners. Even so, the total amount is still insufficient. Hence it will limit the impact of AADMER and the activities that the AHA Center carries out.

The AHA Center is trying to tap into another source of funding, for example, from private sectors. It will indeed be a challenging task for the AHA Center to ensure the participation of the private sectors. However, the AHA Center can convince the private sectors that

natural disasters can also impact their businesses hence their involvement is highly required. Aside from the private sectors, ASEAN can also tap into global funds such as the Green Climate Fund, which is a financing mechanism under the United Nations Framework Convention on Climate Change. It is very urgent for the AHA Center to diversify and increase its funding resources if it aims to be self-sufficient and achieve financial sustainability by 2025.

Another issue is related to gender mainstreaming. Previously, during the 32nd Meeting of the ASEAN Committee on Disaster Management (ACDM) on 26 – 28 June in 2018 in Malaysia, leaders from ASEAN National Disaster Management Organizations also put priorities for women in disaster management. According to a study conducted by E. Neumayer and Thomas Plümper in 2007, women and girls suffered more from shortages of food and economic resources. Therefore, ASEAN is trying to assure that authorities involved will ensure the safety and privacy of women during disasters.

In addition, the gender mainstreaming also tries to increase women’s involvement in disaster management. The action will improve women’s role as key humanitarian agents. By letting women to be more involved in disaster risk management, ASEAN can truly implement the whole of communities approach.



---

**RENEWABLE  
ENERGY  
IN ASEAN:  
AN INVESTMENT  
GUIDEBOOK**

**MARITIME  
LOGISTICS IN  
ASEAN:  
AN INVESTMENT  
GUIDEBOOK**

**AGRICULTURE IN  
ASEAN:  
TRADE AND  
INVESTMENT  
GUIDEBOOK**

---

DOWNLOAD OUR GUIDEBOOKS AT  
[bit.ly/thc-guidebooks](https://bit.ly/thc-guidebooks)

---



FOR MORE INFORMATION ON COUNTERING  
VIOLENT EXTREMISM IN INDONESIA PLEASE VISIT

**deteksiindonesia.com**



**Cover:**  
**Old Bagan, Myanmar (Burma)**  
*Source: Photo by Farzaan Kassam on Unsplash*



The ASEAN Studies Program was established on February 24, 2010, to become a center of excellence on ASEAN related issues, which can assist in the development of the ASEAN Community by 2015. The Habibie Center through its ASEAN Studies Program, alongside other institutions working towards the same goal, hopes to contribute to the realization of a more people-oriented ASEAN that puts a high value on democracy and human rights.

The objective of the ASEAN Studies Program is not merely only to conduct research and discussion within academic and government circles, but also to strengthen public awareness by forming a strong network of civil society in the region that will be able to help spread the ASEAN message. With the establishment of ASEAN Studies Program, The Habibie Center aims to play its part within our capabilities to the ASEAN regional development.

### **ASEAN STUDIES PROGRAM**

The Habibie Center  
Jl. Kemang Selatan No.98, Jakarta Selatan 12560  
(P.) 62 21 781 7211  
(F.) 62 21 781 7212

[www.habibiecenter.or.id](http://www.habibiecenter.or.id)  
[www.thcasean.org](http://www.thcasean.org)

[facebook.com/habibiecenter](https://facebook.com/habibiecenter) [@habibiecenter](https://twitter.com/habibiecenter)



*The Habibie Center*

**The Habibie Center Building**

Jl. Kemang Selatan No. 98, Jakarta Selatan 12560

P. +62 21-781 7211 | F. +62 21-781 7212

f [facebook.com/habibiecenter](https://www.facebook.com/habibiecenter) @habibiecenter

[www.habibiecenter.or.id](http://www.habibiecenter.or.id)



9 772502 072014