



APRIL 2025

Money Matters

*The Relationship between Democratization
and Economic Growth in Southeast Asia*

AUTHOR
Gita Wirjawan

A Report of the Center for Strategic and International Studies

CSIS

CENTER FOR STRATEGIC &
INTERNATIONAL STUDIES

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Executive Summary

This report focuses on how Southeast Asian economies can more effectively attract the vast monetary capital circulating in today's global market by embracing a new political economy that prioritizes financial inclusion, investment attraction, marginal productivity, trade expansion, political stability, and talented leaders able to facilitate the achievement of these goals. This report contends that for this new political economy to flourish in Southeast Asia, the distribution of power and other essential public goods will not be effective without the meritocratic selection of talent for positions of leadership and governance—a fundamental dimension of robust liberal democracies. More monetary capital through foreign direct investment (FDI), borrowing, and trade will allow Southeast Asian governments to bolster their domestic liberal democratic systems—enhancing their rule of law, transparency, ease of doing business, and political stability. These factors increase countries' trustworthiness, which will then enable them to consistently benefit from the tremendous global financial capital that has historically failed to funnel into the region. Despite the fundamental challenge of finding the right balance between talent and power to promote liberal democratic values and institutions in order to attract monetary capital, one can be cautiously optimistic about Southeast Asia's prospects in the long run.

Introduction

Many factors contribute to how a particular country develops over time, including its location, geography, and existing resources—natural, human, economic, political, and technological. Development also depends on whether and how a country's leaders harness and cultivate existing resources, along with those that are needed in order to become “better.” Improvement along this trajectory can be assessed by measuring improvements along key economic metrics, including the country's ability to attract investment, borrow productively, trade with the rest of the world, lift income per capita, and redistribute wealth.

Southeast Asia is a region of 11 nations and around 700 million people who are multi-dimensional in many respects, including ethnicity, language, religion, geography, historical experience with colonialism, and form of government. Remarkably, for roughly two millennia, the region has maintained relative peace and stability, notwithstanding natural disasters and diverging influences of spiritual, religious, colonial, political, and geopolitical natures.¹ Southeast Asia also enjoyed long periods of robust economic growth (over 7 percent per year), mostly between the 1970s until the late 1990s, when the 1997 Asian financial crisis temporarily impaired the region's economic wherewithal and when China joined the international trade network as a member of the World Trade Organization in 2001.²

This report focuses on 10 Southeast Asian economies and how the distribution of monetary capital to each country is influenced by the degree to which it has adopted liberal democratic institutions and systems.³ It takes both a descriptive and prescriptive methodology to examine this relationship. First, it takes stock of the current state of Southeast Asian governments and economies and their ability to attract monetary capital. Second, on that basis, it argues for what they need: a new political economy that prioritizes financial inclusion, investment attraction, marginal productivity, trade expansion,

political stability, and talented leaders who are able to facilitate the achievement of these goals. Ultimately, this report aims to demonstrate how this new political economy will enable Southeast Asian countries to benefit from the vast monetary capital circulating in the global market and further bolster their domestic liberal democratic systems.

The State of Liberal Democracy in Southeast Asia

Liberal democracy is characterized by competitive elections, the separation of powers among different branches of government, the rule of law, a market economy, and equal protection of human rights, civil rights and liberties, and political freedoms for everyone.⁴ Liberal democracies can take different forms, such as a republic or a constitutional monarchy.

Southeast Asian countries vary in the degree to which they embody these components of liberal democracy. Freedom House, an independent but mainly U.S.-government-funded organization, assesses countries' global freedom levels.⁵ Southeast Asian countries fare poorly by this measure. None of them are classified as "Free"; four maritime states with multi-party systems—Indonesia, Malaysia, the Philippines, and Singapore—are classified as "Partly Free"; and Brunei, Cambodia, Laos, Myanmar, Thailand, and Vietnam are classified as "Not Free."⁶ This report will compare and contrast those countries that are classified as "Partly Free" and those that are "Not Free" to examine how the varying levels of liberal democratic values across these nations correspond to their ability to access monetary capital.

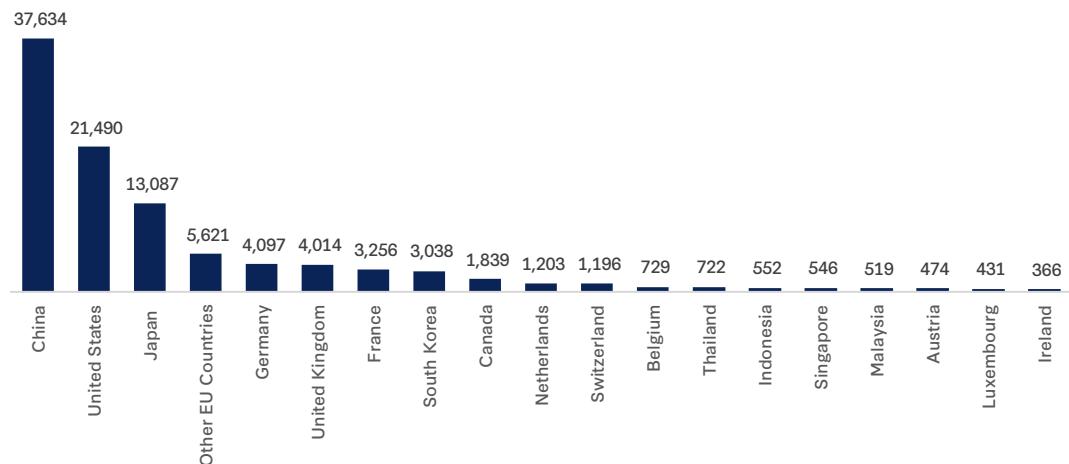
While these seven countries all contain some characteristics of liberal democracy, it is important to note that they all vary in the extent to which their nations have remained committed to liberal democratic systems and institutions over time. Military coups in Thailand (2014) and Myanmar (2021), for example, have, in different ways, at least temporarily undermined the democratic prospects in those states. Nevertheless, if avoiding absolute rule by a monarch or a single political party is a requisite for liberal democracy, it is encouraging to note that these seven countries together account for 80 percent of the region's nearly 700 million people and 90 percent of its \$3 trillion economy.⁷ They, therefore, exercise a significant amount of influence on the region's overall trajectory, encouraging widespread adoption of liberal democratic values and institutions.

Another important dimension of liberal democracy is the availability of information to all. Unfortunately, the tremendous growth in the democratization of information has not been accompanied by a comparably broad distribution, into the hands and minds of many, of the attributes needed to process and use information in effective and ethical ways. Among those attributes are knowledge, intellect, and integrity in the accumulation and use of human, social, and monetary capital. The next section explores how the distribution of global monetary capital to Southeast Asia has been influenced by the degree to which these countries have strived, struggled, or thrived as liberal democracies.

The Growth of Global Money Supply

Before examining Southeast Asian economies specifically, it is useful to first look at how money supply has grown outside of the region. Since the beginning of the twentieth century, money supply has become disproportionately more abundant in many developed economies compared to their developing counterparts. This is thanks largely to the long periods of quantitative easing—more practically coined money printing—which have more obviously and periodically taken place since the British government’s decision to fund its participation in World War I in 1914.⁸ This activity has since continued among many other developed economies and most notably the United States, which even further amplified the modern monetary practice for purposes of remedying the 2007–2008 great financial crisis and, more recently, the handling of the Covid-19 crisis. All this is manifested in the prevalence of around \$100 trillion—around the size of the world’s GDP—of liquidity or broad money supply (M2) in many developed economies, including the United States, Canada, Western European countries, Japan, South Korea, and China.⁹

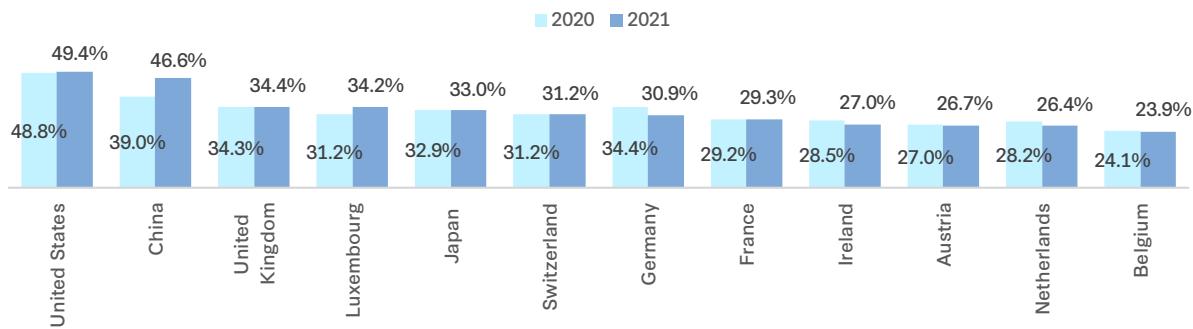
Figure 1: 2021 Broad Money (M2) Supply (USD, billions)



Source: "Money Supply M2," CEIC, <https://www.ceicdata.com/en/indicator/money-supply-m2>; and "European Central Bank--Statistical Data Warehouse," Statistical Data Warehouse, European Central Bank, https://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=BSI.M.U2.YV.M20.X.1.U2.2300.Z01.E.

Ironically, in these countries, many of which can be classified as liberal democracies, with the clear exception of China, the money supply has not been distributed or democratized to every layer of the society, leading to increases in Gini coefficient ratios and inequality in recent years (see Figure 2). Furthermore, the money supply has not been distributed adequately to the regional liberal democratic countries where potential economic return could potentially have been higher, albeit with less certainty given the risk levels involved.

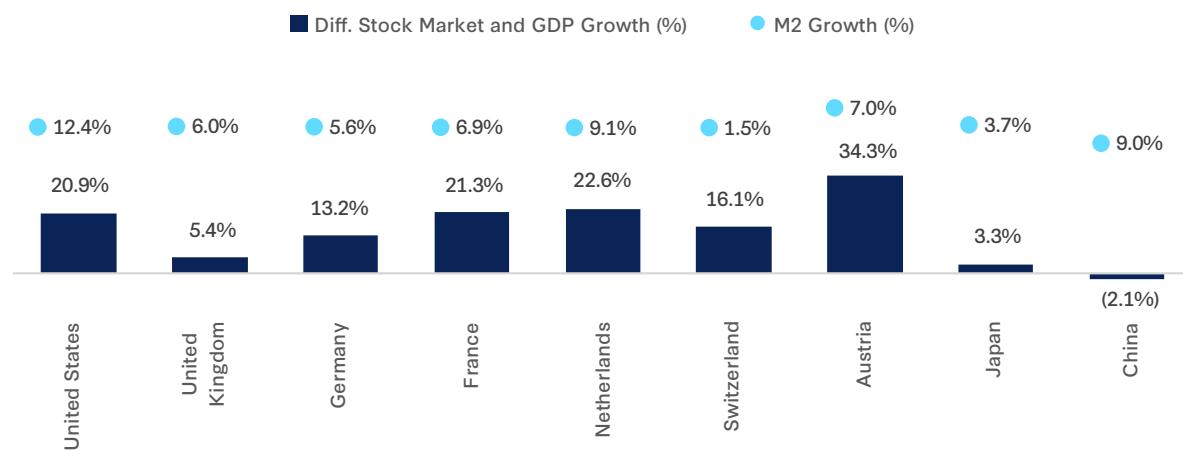
Figure 2: Gini Coefficient Ratios¹⁰



Source: World Bank, Statista, and Trading Economics. Please see endnote for more details.

One explanation for this rising inequality in liberal democracies is that much of the liquidity created has been trapped in the countries' capital market instruments, which do not necessarily represent or cover all layers of countries' economies. The divergence between the countries' indices of capital markets and real economies is indicative of how money supply is paradoxically not being democratized in many of these liberal democracies.

Figure 3: Money Supply (M2) Growth Rate and Difference between Capital Market and Real Economy Growth Rates, 2021 (%)



Source: “US M2 Money Supply,” Yahoo Finance, https://ycharts.com/indicators/us_m2_money_supply; “GDP Growth (Annual %),” The World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>; “Broad money (% of GDP),” The World Bank, <https://data.worldbank.org/indicator/FM.LBL.BMNY.GD.ZS>; and “Uang M2,” CEIC, <https://www.ceicdata.com/id/indicator/money-supply-m2>.

As has been proselytized by many proponents, one key principle of liberal democracy is for an individual to have and be able to manifest their own economic right. Recent events have shown that the economic freedom entitled to individuals in a liberal democratic system is often not fully realized. The exponential sophistication of technological and financial innovation is unfolding at a pace beyond what most individuals can comprehend or adapt to, resulting in less financial or monetary inclusion, as well as greater inequality. Several recent economic episodic stresses remind us of the dangers posed by a lack of comprehension of financial tools. During the 2008 great financial crisis in the United States, for example, savings of the majority were trapped and bungled in capital market instruments that were far too sophisticated, such as mortgage-backed securities and credit default swaps, that were richer in jargon than in fundamentals.

Wealth and income inequalities have also increased, even among liberal democracies. This is attributable not only to lower levels of financial inclusion due to rapid technological and financial innovations, but also more fundamentally to the system and the people within it that are responsible for allocating monetary capital. The rules and rulers do not only need to be cognizant of the problem, but also, and more importantly, they need to account for and rectify it.

One reason why liberal democratic countries with a lot of monetary capital have not distributed these funds to other liberal democracies where the return is potentially higher is that many beneficiary countries around the world are prone to higher risks and have not adequately pursued the reforms needed to encourage this much needed monetary capital. As a result, different Southeast Asian countries have attracted capital from the world with varying levels of success.

Foreign Direct Investment in Southeast Asia

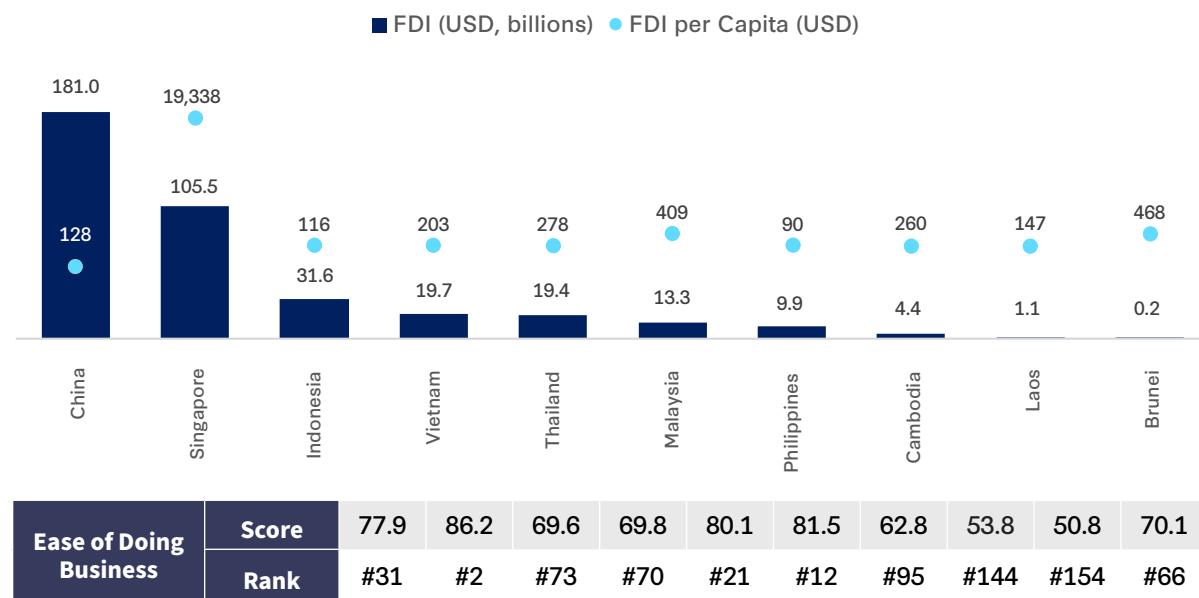
A country can increase its money supply by way of attracting investable money from overseas through foreign direct investment (FDI). Southeast Asia is particularly interesting to scrutinize here, owing to the sheer differences in GDP, GDP per capita, and the ability to attract FDI across the region. Southeast Asia's average GDP per capita in 2021 was \$4,700, with Singapore as a complete outlier (\$72,794) and the remaining countries—ranging from Myanmar (\$1,187) to Brunei (\$31,722)—significantly skewing the average downward.¹¹

For all intents and purposes, Singapore will be categorized as a developed country in this paper. Singapore, with a population of around 5.5 million people and the ability to attract \$105.5 billion of FDI in 2021 (or \$19,338 of FDI per capita), clearly stands out as not only a winner but also a complete outlier when compared to the rest of the Southeast Asian economies, which range from the Philippines (\$90) to Brunei (\$468) in terms of FDI per capita.¹² The argument that Singapore's significant FDI per capita is due to its small population is misleading and falls apart when considering that its total FDI in 2021 was much larger than the next largest total in Southeast Asia (Indonesia, with a population of around 280 million, had \$31.6 billion in FDI in the 2021).¹³

One previously embraced way of measuring the degree to which capital formation takes place in a country through FDI has been the “Ease of Doing Business” ranking regularly published by the World Bank. Unfortunately, this report is weighted more on the front end of capital formation in the context of how easy (or difficult) it is for a capital holder from outside a country to obtain a permit and set up a business in a particular country. It does not extensively measure how the business, after having been set up, operates within the framework of a country's particular rules and regulations. While a measurement of how hospitable or welcoming a country is when starting a business is important, the

“Ease of Doing Business” ranking is not a complete or perfect gauge of how a country can consistently attract and maintain stable levels of FDI over time. As Figure 4 clearly demonstrates below, a particular country’s ranking in the “Ease of Doing Business” report does not directly correlate with a corresponding amount of FDI in the country (for example, Malaysia, ranked 12th, does not have more FDI than Vietnam, ranked 70th).

Figure 4: 2021 FDI (USD, billions), FDI per Capita (USD), and Ease of Doing Business Score and Rank



Note: Correlation between FDI and Ease of Doing Business Score: 0.52.

Source: “Foreign Direct Investment Realization by Province (Million US\$), 2019–2021,” Statistics Indonesia, <https://www.bps.go.id/indicator/13/1840/1/realisasi-investasi-penanaman-modal-luar-negeri-menurut-provinsi.html>; “Foreign Direct Investment,” CEIC, <https://www.ceicdata.com/en/indicator/foreign-direct-investment>; “Foreign Direct Investment,” Trading Economics, <https://tradingeconomics.com/country-list/foreign-direct-investment>; and “Doing Business 2004–2020,” Doing Business Archive, The World Bank, <https://archive.doingbusiness.org/en/doingbusiness>.

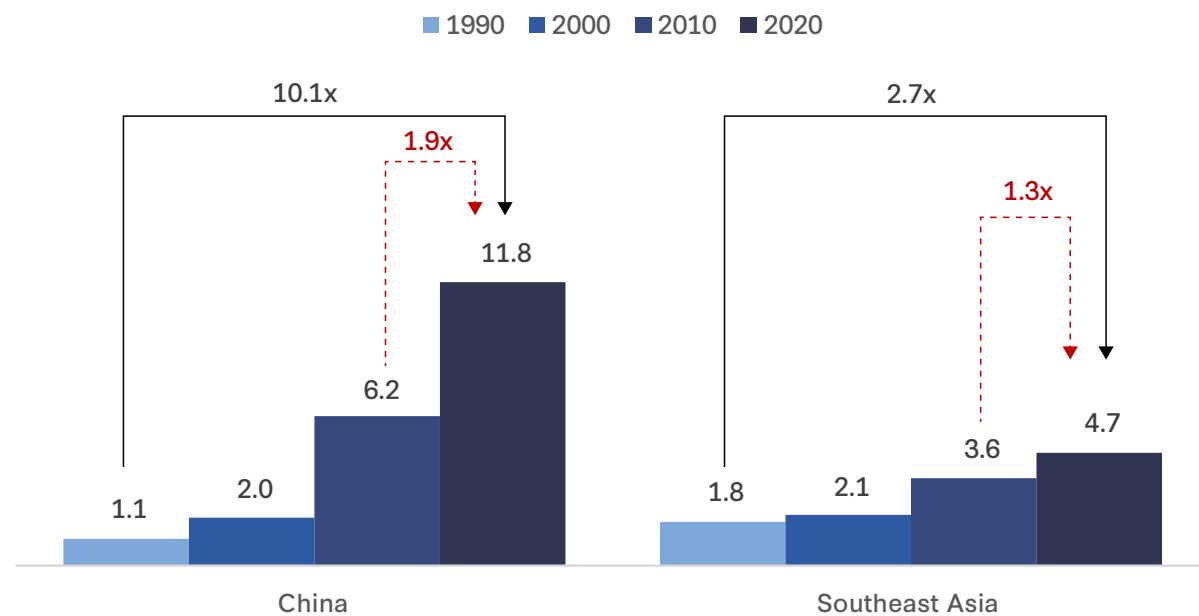
Conventional wisdom would dictate that the way money flows from one place to another is like the flow of water driven by gravitational forces. As much as one tries to define gravity by factors such as the country’s population size, ideology, demographics, geography, and natural resources, the most important determinant of such gravitational forces is the extent to which the recipient country is perceived as trustworthy. A country’s trustworthiness depends on not only a snapshot of where it is but, more importantly, where it has been and will be during the time period in which monetary capital is to be deployed and paid back.

Singapore has been a beneficiary of long periods of monetary capital allocation due to its trustworthiness. That is, the nation has successfully implemented liberal democratic systems and institutions to establish itself as a trustworthy partner to foreign investors. Holders of monetary capital fundamentally demand visibility, ideally even certainty, with respect to what happens to the capital deployed—not only with respect to the preservation or augmentation of capital but more

importantly with respect to whether the rules and the rulers of the game can be held to account. A country's trustworthiness simply boils down to how rules and regulations of the underlying country are enforced. The more certain such enforceability is, the more trustworthy the recipient country is, and vice versa. The ability to fulfill those requirements is divorced from whether the country has a large population size, an ideology that is aligned with that of the monetary capital allocator, a young population, advantageous geography, or an abundance of natural resources. Singapore has been able to consistently maintain key liberal democratic systems that enable ease of business, competition among entrepreneurs, quality education and governance, and political stability—all elements enabling it to attract FDI.

The impact of ease of doing business, competition, education, governance, and political stability on successful monetary formation can be further illustrated by how Southeast Asian economies have fared with respect to China. Southeast Asia's average GDP per capita has grown only 2.7 times during the 30-year period between 1990 and 2020 (from \$1,800 to \$4,700), while China's GDP per capita has grown around 10.1 times during the same period (from \$1,100 to \$11,800).¹⁴ Countries' Ease of Doing Business rankings can help explain Southeast Asia's relative underperformance in this context; China ranks 31st, while Southeast Asian countries such as Brunei, Vietnam, Indonesia, the Philippines, Cambodia, and Laos all score poorly (Myanmar is excluded from the list because no data could be found).

Figure 5: Real GDP per Capita (USD, thousands, sorted by size of regional GDP)



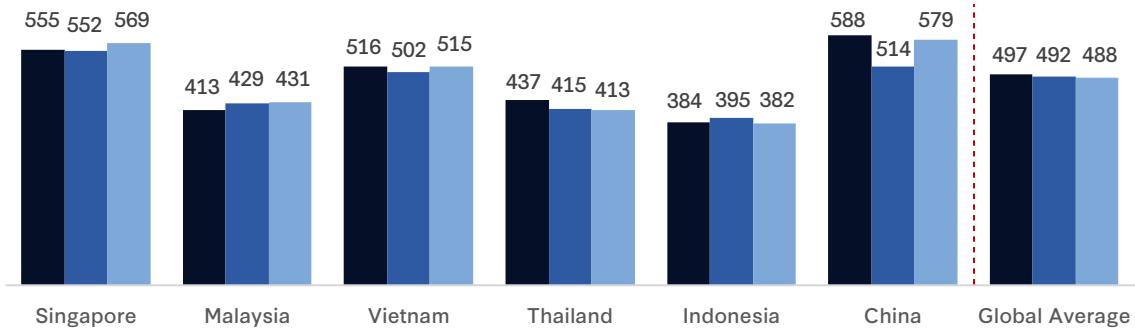
Source: Charlie Ormiston, "Bain and Company/Monk's Hill Ventures 2022 Southeast Asia Region Assessment: Will Southeast Asia Regain the Growth Crown?," Bain and Company/Monk's Hill Ventures, September 22, 2022.

Obstacles Impeding FDI in Southeast Asia

With the exception of Singapore, the majority of Southeast Asian countries face three primary obstacles to their economic performance and ability to attract FDI: low levels of education, lack of competition, and the poor quality of leadership and governance.

Education means the liberation of the mind, which is crucial to any developing economy. The lack of economic capital, manifested in limited monetary and fiscal resources, is a structural deficiency in most Southeast Asian countries' pursuit of greater educational attainment. Because putting food on the table is a higher priority for most countries in Southeast Asia, education has taken a back seat. Yet, one can find promising examples of how investments in education have impacted countries' overall productivity and economic performance. Vietnam, for example, has been quite resolute in pursuing educational improvement in language and science, as evidenced by a significant rise in their Program for International Student Assessment (PISA) score. Recently, this has positively correlated with Vietnam's ability to achieve higher FDI on a per capita basis, improve its marginal productivity, and undertake multilateral economic cooperation agreements.

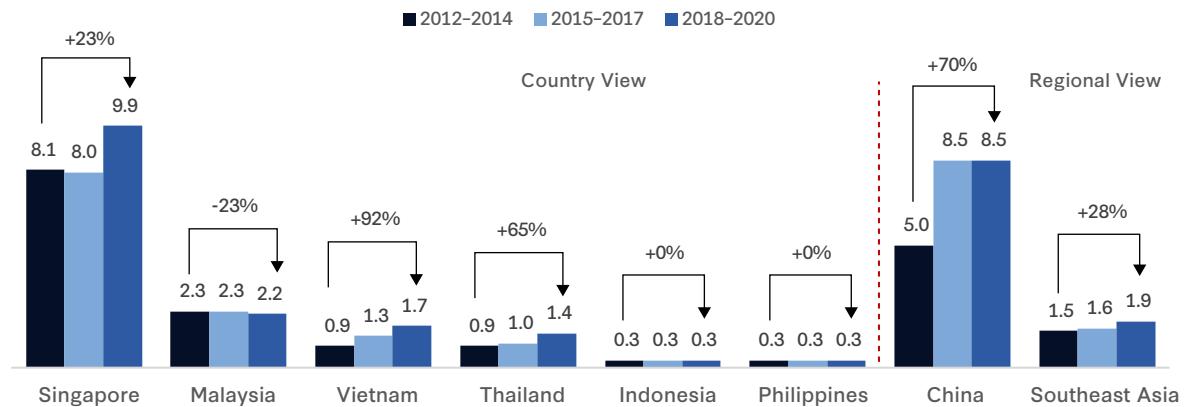
Figure 6: Average Program for International Student Assessment (PISA) Scores, 2012, 2015, and 2018



Source: “PISA Database,” Programme for International Student Assessment, <https://www.oecd.org/pisa/data/>.

Many Southeast Asian nations have failed to facilitate and encourage productive competition within their countries. Singapore has led the region in encouraging competition for its entrepreneurs—even outpacing China in the number of businesses it registers. Singapore has allowed for the registration of 8.1 to 9.9 businesses per 1,000 working adults during the eight-year period from 2012 until 2020, while China has increased registration from 5 to 8.5 businesses per 1,000 working adults during the same period.¹⁵ These are staggeringly higher registration numbers compared to those of other Southeast Asian countries (particularly Indonesia and the Philippines, both at 0.3 businesses per 1,000 working adults).¹⁶ A higher number of business registrations can imply not only a higher entrepreneurial spirit or propensity to take risk, but also a more expedient system of government or bureaucracy and an abundant supply of monetary capital in the country.

Figure 7: Competition—More Businesses Are Opening in Key Markets, such as Singapore, Vietnam, Thailand, and Indonesia



Source: Charlie Ormiston, “Bain and Company/Monk’s Hill Ventures 2022 Southeast Asia Region Assessment: Will Southeast Asia Regain the Growth Crown?,” Bain and Company/Monk’s Hill Ventures, September 22, 2022.

While Malaysia consistently registers 2.2 businesses per 1,000 working adults, it is noteworthy that Vietnam and Thailand have seen growing rates of business registration over the same eight-year period.¹⁷ This rise is correlated with both countries' relatively favorable positions in terms of ease of doing business (Vietnam at 70th—still in the top half globally—and Thailand at 21st) and FDI per capita (Vietnam at \$203 and Thailand at \$278) vis-à-vis other large Southeast Asian countries, such as Indonesia and the Philippines.

One peculiar irony with Indonesia is that, while it attracts very little FDI per capita (\$116), it is the country with the greatest number of unicorns in Southeast Asia (11 Indonesian start-up companies have achieved a valuation of at least \$1 billion, including Ajaib, Akulaku, BliBli, Bukalapak, GoTo, J&T Express, Kopi Kenangan, Kredivo, OVO, Traveloka, and Xendit). While Indonesia has not been able to register more than 0.3 businesses per 1,000 working adults, it has recently started attracting attention from monetary capital holders as the largest market in Southeast Asia, with a population of 275 million.¹⁸ Ever since the inception of democracy in Indonesia in 1998, Indonesia's commitment to democracy has been questioned. However, the country's ability to consistently and peacefully undertake military and political reforms, hold parliamentary and presidential elections, and maintain a relatively robust economic growth trajectory has greatly diminished this skepticism. With more robust rule of law and enforceability of rules and regulations, Indonesia and other Southeast Asian countries have a high probability of achieving much higher FDI.

The final factor impeding the majority of Southeast Asian countries' ability to attract monetary capital is leadership and governance. Singapore is once again the outlier here, primarily due to its human capital development. Its founder, Lee Kuan Yew, was singularly focused on recruiting and cultivating the best talent around him. He had one of the most open-minded approaches to seeking the best talent from anywhere around the world who would be relevant to the country's development and modernization initiatives. Such dogmatic selection of talent based on merit, which could be regarded as an effective democratization of talent, has been underpinned by the three most common words mentioned in Singapore's political and economic development narratives: integrity, competence, and accountability. The sheer pragmatism of making Singapore the most habitable and investable destination in the region has taken it well ahead of its peers and granted it prestigious high-income status. While Singapore is subject to criticism for its views on certain liberal democratic rights, such as freedom of speech or press, successive generations of leaders since Lee Kuan Yew have continued to focus on cultivating and attracting the best talent. This invariably and inevitably could not have taken place without the relative peace and stability that Singapore and Southeast Asia have enjoyed in the last few decades.

Other members of Southeast Asia have also taken advantage of this relative peace and stability to foster talent or human capital, albeit not to the same extent as Singapore. Indonesia—a democracy that has succeeded in upholding a one person, one vote system in more than 500 points of political contention at national, provincial, regency/kabupaten, and city levels since 2004—has improved over the years, though at a slow pace. The country paradoxically has not been able to consistently select talent based on merit. Instead, in many instances and places, talent has been selected based more on loyalty or patronage, with utter disregard for merit. The pool of talent has been structurally stymied by the relative lack of educational attainment compared to other neighboring countries in Southeast Asia. This has, to some extent, been attributable to several factors.

First, a pre-existing budgetary limitation was amended through constitutional action only a few years ago to allocate a minimum of 20 percent of the government budget to educational purposes. Second, there has not been an adequate focus, much less priority, on selecting top talent from academic institutions to teach at every level of the educational hierarchy, be it tertiary or non-tertiary. This is largely attributable to a much more commercially driven compensation structure within private and entrepreneurial spaces, which has not been replicated in government- or private-owned academic institutions. Third, owing to budgetary limitations, the Indonesian government and its educational system has not been able to be as open minded in recruiting talent from beyond its national boundaries as Singapore, which has been proactively recruiting the best, and obviously more expensive, talent from institutions from all over the world. Fourth, the centripetal nature of Indonesia's economic development (i.e., a higher economic growth rate in Jakarta and Java, the most populous island, compared to the rest of the country) has further exacerbated the ability of economies at the provincial, regency/kabupaten, and city levels to retain, much less recruit, talent.¹⁹ As a result, Jakarta and Java are the predominant engine of growth and talent recruitment across the archipelago. This inevitably has had two apparent implications: less economic development on the fringes and greater inequality between the center and the rest.

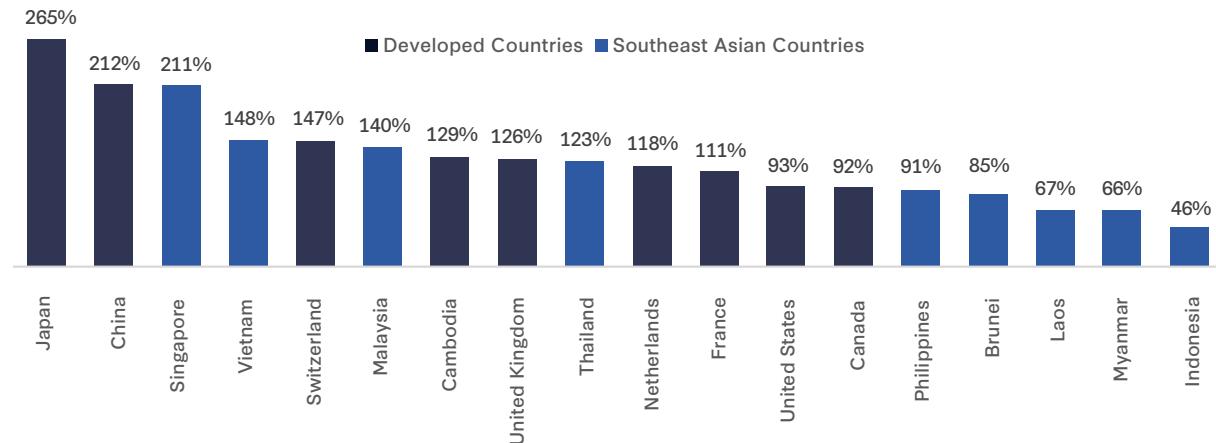
These two Southeast Asian countries provide a sense of both ends of a spectrum that helps illustrate what it takes to attract monetary capital from the rest of the world. On one end, Singapore is a small country that has implemented liberal democratic structures and systems to foster ease of doing business, competition, education, and governance in order to attract FDI, which totaled \$19,338 per capita in 2021.²⁰ On the other end, Indonesia is the region's most populous country (suggesting ample opportunity) but has only managed to attract FDI at a rate of just \$116 per capita in 2021.²¹ This can be traced back primarily to Indonesia's shaky commitment to the rule of law, transparency, and the quality of leadership in government. Beyond Singapore, the region's other nine countries—which range in FDI per capita between \$90 and \$468—will struggle to attain much higher levels of FDI until and unless they can show a much greater commitment to liberal democratic systems that bolster their trustworthiness.

Borrowing, Trade, and Marginal Productivity in Southeast Asia

The second means by which an economy could grow its money supply, in addition to attracting FDI, involves its desire, capacity, and ability to borrow—and equally, if not more importantly, to repay. This section explores how the degree to which Southeast Asian countries have been able to increase their monetary capital through borrowing and trading is correlated to the existence of liberal democratic institutions and systems in each respective nation.

One approach to borrowing is to do so domestically, but this is limited by the pre-existing money supply within the economy. Looking at the 10 economies of Southeast Asia, there are only 5 countries—Cambodia, Malaysia, Singapore, Thailand, and Vietnam—that have a money supply (M2)-to-GDP ratio of more than 100 percent. This typically implies abundant domestic liquidity that the country can tap into for purposes of borrowing, be it by the government or the private sector. The other five countries—Brunei, Indonesia, Laos, Myanmar, and the Philippines—are quite limited because, with M2-to-GDP ratios of less than 100 percent, they do not have as much wiggle room to borrow domestically as their other Southeast Asian counterparts. Domestic borrowing activities depend on borrowers' creditworthiness, which in hand depends on the wherewithal of government and private institutions to repay loans. In the case of a government, this is reflected in its sovereign ratings, monetary stability, and fiscal sustainability, and in the case of government or private institutions, this is reflected in credit ratings.

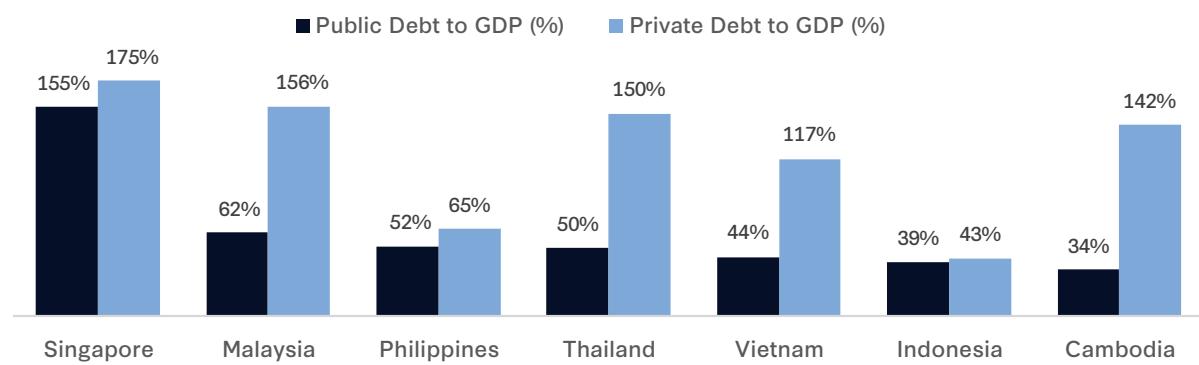
Figure 8: 2021 Broad Money (M2) Supply to GDP (%)



Source: “Money Supply M2,” CEIC, <https://www.ceicdata.com/en/indicator/money-supply-m2>; and “European Central Bank--Statistical Data Warehouse,” Statistical Data Warehouse, European Central Bank, https://sdw.ecb.europa.eu/quickview.do?SERIES_KEY=BSI.M.U2.Y.V.M20.X.1.U2.2300.Z01.E; “GDP (current US\$)—Japan,” The World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=JP>; and “Broad Money (% of GDP) By Country,” Trading Economics, <https://tradingeconomics.com/country-list/broad-money-percent-of-gdp-wb-data.html>.

Although Southeast Asian government debts (except for Singapore) are within manageable boundaries, with debt-to-GDP ratios of between 34 percent for Cambodia and 62 percent for Malaysia in 2020, borrowing by the private sector in five Southeast Asian countries—Cambodia, Malaysia, Singapore, Thailand, and Vietnam—yields far greater debt-to-GDP ratios of between 117 percent and 175 percent, with Cambodia and Malaysia representing the ends of the spectrum.²² The high levels of private sector borrowing in these five countries is correlated with abundant domestic liquidity.

Figure 9: Southeast Asian Countries’ Public and Private Debts in 2020 (% to GDP)



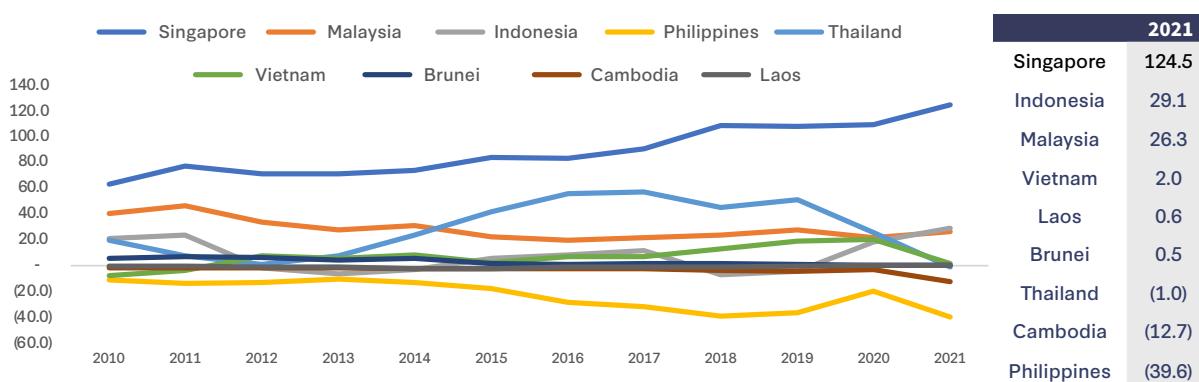
Source: “Global Debt Database,” IMF, 1950–2021, <https://www.imf.org/external/datamapper/datasets/GDD>; and “Central Government Debt, total (% of GDP),” The World Bank, 1970–2020, <https://data.worldbank.org/indicator/GC.DOD.TOTL.GD.ZS>.

Borrowing internationally, as compared to domestically, has a direct impact on a country’s money supply because it comes from external sources. The ability of a government or the private sector to borrow internationally depends on several factors, including the country’s sovereign rating or private

company's corporate ratings, indebtedness, amount of liquidity in the international community, domestic political stability, geopolitical stability, duration of borrowing, and purpose of borrowing. The last factor is what helps a country be able to meaningfully increase money supply in the future. Borrowers can improve their ability to repay and increase their money supply through non-borrowing mechanisms (such as FDI) in the future if they use monetary capital to increase employment, improve the quality of human capital, and raise productivity levels. This point is particularly key within the context of Southeast Asia, where an increased money supply could enable countries to transition into this new political economy that prioritizes financial inclusion, investment attraction, marginal productivity, trade expansion, political stability, and leaders selected based on merit. Strengthening these aspects of a liberal democracy will thereby make these countries appear more trustworthy and capable of attracting more FDI.

Trading also affects a country's money supply. Surpluses in a nation's trade account are positively correlated to the country's current account and money supply, and vice versa for deficits. The trade accounts of all Southeast Asian economies feature variations over time. One would think intuitively that the country with the largest population size and natural resources, Indonesia, would have the largest balance in its trade account. However, once again, Singapore stands out, with not only the largest trade account balance (\$124.5 billion) but also the largest trade-to-GDP ratio (338.3 percent) among all Southeast Asian countries in 2021.²³ Singapore's geographic position is no more favorable than its neighbors; Malaysia, Indonesia, and Thailand could just as competitively position themselves as a strategic hub for transshipment purposes for countries around the world that are keen on transporting goods and services to different parts of Southeast Asia or beyond. Moreover, these countries have hinterland capabilities that could serve as an additional competitive advantage over Singapore. The fact that these countries—that all fall short in fully adopting liberal democratic structures and systems—fall far behind Singapore in attracting monetary capital through FDI, borrowing, and trade further highlights the correlation between liberal democracy and a nation's ability to attract monetary capital. This demonstrates again how Singapore has successfully cultivated liberal democratic values and institutions, building up its rule of law, transparency, and human capital in order to position itself as a trustworthy trading and investment partner.

Figure 10: Trade Account Balances in Southeast Asia, 2010–2021 (USD, billions)

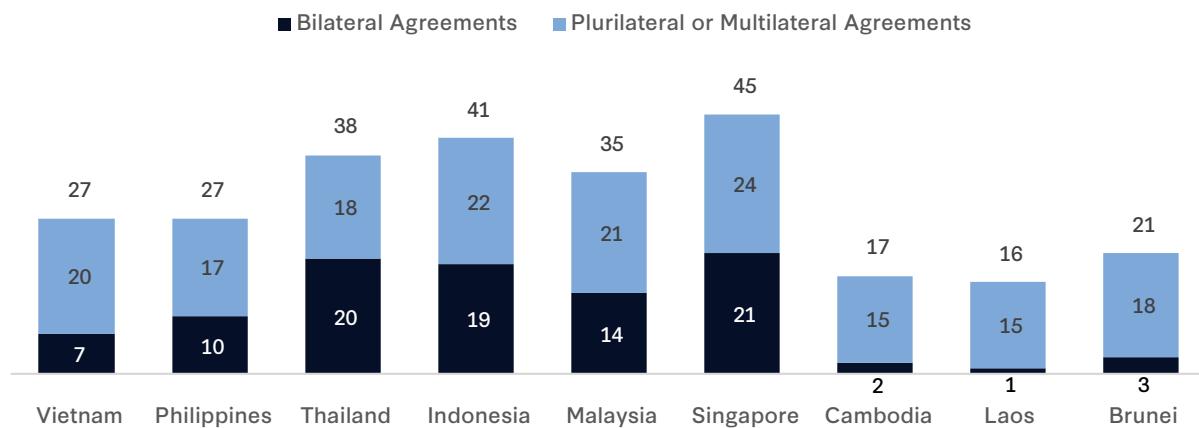


Source: "Current Account Balance (BoP, current US\$," The World Bank, 1960 – 2021, <https://data.worldbank.org/indicator/BN.CAB>. XOKA.CD.

In addition to the exchange of goods and services, trading also encompasses the exchange of ideas. Fertilized with robust human capital and institutional growth, this form of trade is essential to a country's overall development. The exchange of ideas can only occur with a country's open-mindedness to allowing for the intersection and absorption of new ideas from anywhere around the world. Not only does this contribute to a robust growth trajectory for a country's trade account, current account, and money supply, it also reflects upon the country's ability to cooperate and collaborate with many members of the international community through various bilateral, plurilateral, and multilateral frameworks.

While Cambodia and Laos have the fewest such frameworks, other countries in Southeast Asia have much higher numbers of both bilateral and multilateral arrangements with the rest of the world. Many of these trade arrangements, particularly some contemporary ones such as the Comprehensive Economic Partnership Agreement (CEPA), the Regional Comprehensive Economic Partnership (RCEP), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPATPP), are not merely about the exchange of goods and services, but they also signify certain intangible attributes—including human rights, environmental friendliness, and protection of intellectual property rights—that need to be heralded in the future. Clearly, Singapore's prominent position as a dominant intersection among many countries for the exchange of goods, services, and ideas is an indicator of how the nation has successfully established itself as a trustworthy and appealing partner within an increasingly globalized economy.

Figure 11: Number of Bilateral, Plurilateral, and Multilateral Cooperation Agreements Signed by Southeast Asian Countries



Note: The number of agreements above only include Free Trade Agreements (FTAs) and Economic Cooperation Agreements.
Source: "Free Trade Agreements," Asian Development Bank, 2015, <https://aric.adb.org/fta-country>.

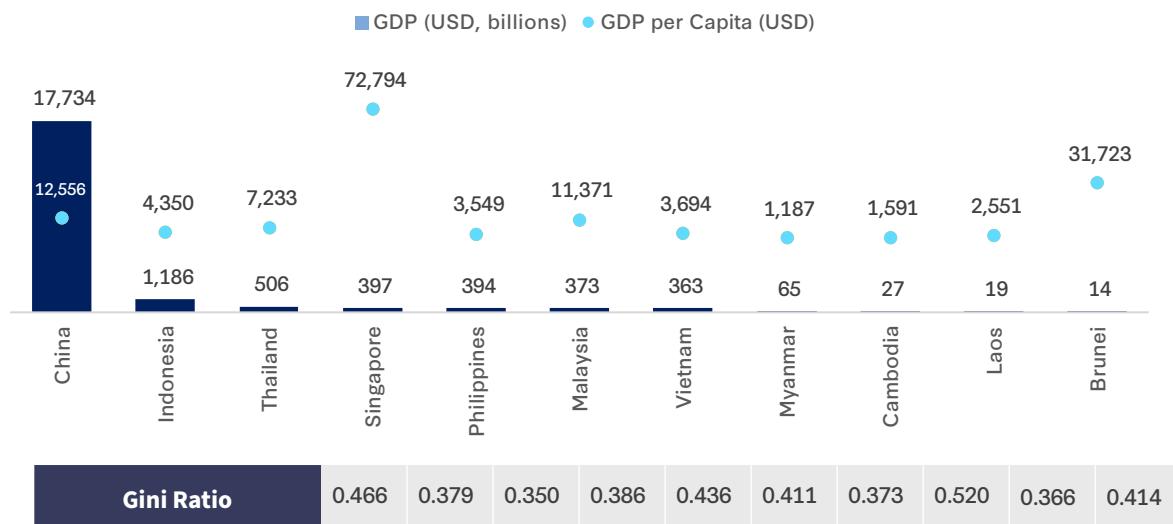
A country's marginal productivity level further highlights its ability to successfully intersect and trade with many members of the global community. A country's marginal productivity is the ability of the average individual in the country to produce goods and services on a yearly basis. Every incremental unit of increase in marginal productivity should logically translate into a higher unit of profitability, which means higher return on investment in the eyes of a monetary capital allocator or investor. Southeast Asian countries have a marginal productivity level that ranges from \$8,480 per capita for Cambodia to \$194,035 per capita for Singapore in 2021.²⁴ However, outside Singapore and Brunei,

which represent less than 1 percent of Southeast Asia's population of 700 million, the remaining 99 percent run on a marginal productivity of less than \$59,638 per capita.²⁵ The significant difference between the marginal productivity of Singapore and most Southeast Asian countries speaks volumes in terms of how much harder it is for these countries to attract monetary capital from the rest of the world. By way of a much higher marginal productivity rate, Singapore has not only been able to attract larger amounts of global monetary capital, but it also has been able to show higher capacity to repay borrowing, move up the value chain, and enter bilateral, plurilateral, and multilateral economic cooperation agreements than other countries in Southeast Asia. Once again, Singapore's liberal democratic institutions and systems have uniquely positioned it as the leader in Southeast Asia in terms of successfully attracting FDI and other forms of monetary capital from the global market.

The Correlation between Liberal Democracy and Monetary Capital Distribution in Southeast Asia

In a functional liberal democracy, relevant institutions must operate so that decisions are formed in a transparent and accountable manner. An increasing number of liberal democracies around the world, in both developed and developing countries, are facing threats to the integrity of their decisionmaking processes. Many intersecting factors contribute to this, but a critical dimension for many liberal democracies around the world is the rise of income and wealth inequality. Despite the prominence of these issues globally, the politics and policymaking of many liberal democracies have not yielded meaningful frameworks to tangibly remedy either issue in the foreseeable future. History suggests that part of the strength of a liberal democracy is its ability to repair and react to issues, but present-day institutions and the people within them have shown an inability to address these problems thus far.

Figure 12: 2021, GDP (GDP per Capita and Gini Coefficient Ratio²⁶)



Source: World Bank, Trading Economics, and relevant government websites. Please see endnote for more details.

Despite Southeast Asia's challenges in accessing money supply compared to developed countries around the world, income and wealth inequality is not more prevalent in the region. If anything, income and wealth inequality indices give most Southeast Asian countries better scores than those of their developed economy counterparts. Thus, the potential for liberal democracies across Southeast Asia to develop and thrive should not be underestimated. This in no way discounts or nullifies the need for any liberal democracy in Southeast Asia to be able to remedy pre-existing issues such as human rights abuses, lack of freedom of expression, lack of economic distribution, and checks and balances of power. In addition to addressing these issues, nascent or evolving liberal democracies in Southeast Asia must also ensure that the aforementioned attributes—such as ease of doing business, competition, education, governance, and political stability—continue on a positive trajectory.

What can be said about Singapore as a liberal democracy if it has attained the majority of these attributes? On the one hand, one can argue that the country has demonstrated an ability to distribute economic power to the hands of many—in addition to other public goods including the right to vote, healthcare, education, social values, and moral values in the context of a multi-racial, religious, and ethnic society. On the other hand, some will contend that Singapore is not entirely a liberal democracy because of its inability to uphold free and fair elections and allow the opposition to have a bigger voice. To paraphrase a former leader of Singapore, an incumbent government anywhere is never in the business of strengthening its opposition. Unlike China, Singapore is not known for its geographic size, but rather the size of its ideas and soft power projection, which have and will continue to help in maintaining its role as an economic magnet for the region and the world. While Singapore must also continue striving to become a full liberal democracy, its ability to uphold the economic development and modernization mantra of competence, integrity, and accountability is something that other Southeast Asian countries must seriously consider emulating if they ever are serious about becoming better liberal democracies themselves.

Is there an argument for the region's single-party systems (Vietnam and Laos), military dictatorship (Myanmar), and absolute monarchy (Brunei) to become liberal democracies going forward? While

many liberal democracies around the world are struggling to remedy their shortcomings, much less to project their shining light onto the rest of the world, the prospects for these nations to adopt liberal democratic values in the near future remains quite low. This will, to some extent, hinge on the degree to which China, as an autocracy, will play a role in deploying monetary capital to not only these countries but also the rest of Southeast Asia.

This report contends that for a new political economy to flourish in Southeast Asia, the distribution of power and other essential public goods will not be effective without the meritocratic selection of talent for positions of leadership and governance—a fundamental dimension of robust liberal democracies. To do so, both the government and private sector must be committed to and have the funding capabilities for educating citizens from the most elementary to the highest tertiary levels. At the rate that there are monetary and fiscal space limitations, the path toward optimization or perfection of liberal democracy for most Southeast Asian countries will take time. Southeast Asia is worthy of consideration as a destination for the distribution or democratization of the abundant liquidity that is prevalent in many other parts of the world, particularly in developed economies. The onus is first and foremost upon any receiving country that needs monetary capital to ensure that the institutions within are maintained by rules and rulers that are held to account. Many economies in Southeast Asia still have their work cut out in terms of their ability to increase money supply through better attraction of FDI, more judicious borrowing, more transparent tax collection capabilities, more robust multilateral economic cooperation strategies, and more robust human capital development. It is also incumbent upon any liberal democracy to consider better democratizing monetary capital that is going to other liberal democracies for institutional capacity building so that the economic benefits accrue not only to the monetary capital allocator, but also to all layers of the society in the recipient country.

Many Southeast Asian countries currently face several obstacles to institutionalizing meritocratic selection processes. Political fragmentation can make decisionmaking processes directionless, periodically causing a country to move like a rudderless boat. One negative illustration of excess political fragmentation, as seen in countries such as Indonesia, Malaysia, and the Philippines, is the perennial formation of a coalition of many political parties that do not share with each other anything but power. Less commonality in terms of ideology, quality of talent, fiscal economic philosophy, monetary economic philosophy, priorities in economic development, and international relations degrade the extent and quality of decisionmaking by the coalescing forces within the government. Again, while this also impacts advanced economies, the difference between a GDP per capita of \$4,000 in a typical developing economy in Southeast Asia and a GDP per capita of \$60,000 in a typical developed economy speaks volumes in terms of the economic impact of political inertia, much less decline, and its effect across populations of millions.

The challenge of selecting the right talent for positions of leadership and governance has recently been complicated by the ascendancy of social media, including Facebook, Twitter, Instagram, and TikTok, where the projection of people, ideas, goods, and services is undertaken in ways that sensationalize or “festivalize” (as if everything is a festival) as opposed to intellectualize. This is often referred to as the “post-truth” era, where truth is subjective, empirical evidence matters less than feelings, facts matter less than alternative facts, and ideas become increasingly polarized into two opposite echo chambers that do not seem to be able to communicate with each other. The search for truth has also been replaced with the search for power. The elections of Donald Trump as president of the United States and George Santos as congressman for New York’s 3rd congressional district, are manifestations

of the post-truth possibilities in the context of how one could attain a position of representation or leadership by projecting lies and what the people want to see or hear, not what those candidates truly are. These social media platforms have been around for some years (Facebook, Twitter, Instagram, and TikTok were established in the years 2004, 2006, 2010, and 2016, respectively) without any meaningful signs of reforms by the relevant policymaking and political bodies, not only in the countries where these platforms were founded but also where they are operational. Given that these social media platforms lack editorial oversight and are viewed by billions of people around the world, regions such as Southeast Asia are unlikely to escape the harsh reality that less and less emphasis is being placed on intellect as a criterion for people seeking a position of leadership. Furthermore, the quality of talent in a position of leadership invariably has a bearing on the quality of talent in positions of governance.

Conclusion

Liberal democracy is not only manifested in the distribution of power into the hands of many but also, and equally importantly, in its ability to have a system that can recognize and help remedy its own shortcomings. Power needs to be distributed to the citizenry alongside other important public goods including welfare, healthcare, education, integrity, and moral and social values. To the extent that these public goods are not all well distributed, or the checks and balances do not work, it is important to recognize that liberal democratic institutions may be broken and need to be fixed or adjusted. These failures may be due to outdated rules that are not relevant to the people and time that they are supposed to serve, or due to positions of leadership and governance not being filled with appropriate talent. This is not a new problem and is something to which even advanced civilizations are not impervious.

Despite the fundamental challenge of finding the right balance between talent and power for the purposes of promoting liberal democratic values and institutions in order to attract monetary capital, one can be cautiously optimistic for Southeast Asia in the long run. One can easily forget that the region has been one of relative peace and stability for a very long time since the early part of the first millennium—despite being graced by Buddhism for around 400 years, Hinduism for around 600 years, Islam, Christianity, and other religions for around 600 years, and independence and democratization for the last few decades. The region was tested by the Asian financial crisis in 1998, which many pundits around the world projected as the kiss of death to countries such as Indonesia, Thailand, and Malaysia—all of which have managed to defy such pontification. Recent military coup d'états in Thailand and Myanmar are signs of regression, but some degree of political and economic stabilization has occurred in Thailand more recently. While the situation in Myanmar has yet to heal, the people of Southeast Asia understand their history and have every belief that they and the system have the very DNA to remedy their own despair.

The people of Southeast Asia also understand that peace and stability are essential preconditions for economic activity and the sustenance of a liberal democracy. This is not to say that economic miracles are to occur ubiquitously in the region in the short run. Nonetheless, only with an alignment of talent and decisionmaking power can the region better tap into its own resources and those of others to better distribute monetary capital and other essential public goods to the hands of many. These steps are critical to Southeast Asia's success in the long term.

About the Author

Gita Wirjawan is currently a visiting scholar at the Walter H. Shorenstein Asia Pacific Research Center, Freeman Spogli Institute, Stanford University. He is the host of a Southeast Asia educational podcast called Endgame, a member of the Board of Governors of the Asia School of Business (MIT Sloan), a member of the international council of the Yale School of Management, and chairman of the Advisory Board of the School of Government and Public Policy (SGPP) Indonesia. While as chairman of Ancora Group, a business group based in Indonesia, he is also a partner at Ikhlas Capital, a Singapore based Southeast Asia private equity fund. He is also an adviser to a number of Southeast Asia based venture capital firms, including Alpha JWC Ventures, Monk's Hill Ventures, Jungle Ventures, and Intudo Ventures. He is also a member of the International Advisory Board of Chubb. Previously, he was trade minister and chairman of the Investment Coordinating Board of the Republic of Indonesia during the years 2009–2014, a banker at JP Morgan, Goldman Sachs, and Citibank, and a public accountant. He received his MPA at Harvard University Kennedy School of Government, MBA at Baylor University, and BBA at the University of Texas, Austin.

Endnotes

- 1 Consider the successive waves of religion in the region. For example, Buddhism permeated the region between the sixth and tenth centuries; Hinduism followed from the tenth to the sixteenth centuries; and Islam spread from the fifteenth century. Furthermore, colonialism took over from the seventeenth to the twentieth centuries until it was replaced by independence in the latter part of the twentieth century. See Robert L. Winzeler, “Religious Transitions in Twentieth Century Southeast Asia” in *Oxford Research Encyclopedia of Asian History* (Oxford, UK: Oxford University Press, 2023), doi:10.1093/acrefore/9780190277727.013.96.
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- 6 Brunei, Cambodia, Malaysia, and Thailand are monarchical systems, but they differ from each other in their day-to-day management. The only absolute monarchy is Brunei, with a population of around

450,000 people; there, the ruling sultan is both head of state and head of government. Cambodia, with a population of 17 million and a multi-party system, has at least the framework of a constitutional monarchy in which the king serves as the head of state while an elected prime minister heads the government. Malaysia, with 34 million people and a multi-party system, exemplifies a federal representative democratic constitutional monarchy in which the king and the elected prime minister head the state and the government, respectively. Thailand is also multi-party and ostensibly a constitutional monarchy, with a population of 72 million, and there, too, at least in principle, a king heads the state while an elected prime minister runs the government. Laos, with 7.4 million people and Vietnam with 99 million, have only one active political party, the Lao People's Revolutionary Party and the Communist Party of Vietnam, respectively. Eduardo T. Gonzalez and Magdalena L. Mendoza, *Governance in Southeast Asia: Issues and Options* (Makati City, Philippines: Philippines Institute for Development Studies, 2001), https://www.jica.go.jp/jica-ri/IFIC_and_JBICI-Studies/jica-ri/publication/archives/jbic/report/paper/pdf/rp16_e07.pdf.

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