Economic and Social Development in Pacific Asia

Edited by
Chris Dixon
and David Drakakis-Smith

ROUTLEDGE

ECONOMIC AND SOCIAL DEVELOPMENT IN PACIFIC ASIA

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PREFACE

This volume has its origins in the Second Geographical Symposium held at the University of Keele in September 1990. The theme of the meeting, The Growth Economies of Asia, stemmed from the Routledge series of that name edited by Chris Dixon and David Drakakis-Smith. The meeting was sponsored by the Developing Area Research Group, The Institute of British Geographers, Routledge and Royal Doulton.

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ABBREVIATIONS

ADB	Asian Development Bank
APEC	Asian Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BKPM	(Badan Koordinasi Penanaman Model) Capital Investment Coordinating Board
CMEA	Council for Mutual Economic Assistance
CBU	Completely Built-up Units
CPF	Central Provident Fund
DPR	Democratic People's Republic (of Korea)
DVR	Democratic Republic of Viet Nam
EC	European Community
ECLA	United Nations Commission on Latin America
EPZ	Export Processing Zone
FAO	Food and Agricultural Organisation
FDI	Foreign Direct Investment
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
ISI	Import Substituting Industrialisation
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	General System of Preference
KMT	Kuomintang
MFN	Most Favoured Nation
MITI	Ministry of International Trade and Industry
NIC	Newly Industrializing Country
NIDL	New International Division of Labour
NTB	Non-Tariff Barrier

OECD	Organisation for Economic Cooperation and Development
OMA	Orderly Marketing Arrangements
PAP	People's Action Party
PRC	People's Republic of China
R & D	Research and Development
SEZ	Special Economic Zone
TIM	Taman Ismail Marzuki
TNC	Trans-National Corporation
UNCTAD	United Nations Industrial Development Organisation
UNCTC	United Nations Commission on Transnational Corporations
UNDP	United Nations Development Programme
VER	Voluntary Export Restraint

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THE PACIFIC ASIA REGION

Chris Dixon and David Drakakis-Smith

The economies of East and South East Asia are becoming integrated into a broad Pacific Asia region. This new regional grouping has emerged as the most dynamic component of the global economy. While the region is becoming increasingly dominated by Japan, it has over the last twenty years contained most of the world's fastest growing economies, viz. the East Asian Newly Industrialized Countries, and more recently, Thailand (Table 1.1). The individual economies are not only extremely varied and complex, but are also linked together by intricate and rapidly changing structures.

The emergence of the less-developed economies of Pacific Asia can only be understood in the context of the accelerated process of internationalization of production and finance, the regional and global pre-eminence of Japan, the strategic position that the region came to occupy, and the development strategies followed by the individual states. The interaction of these factors is not only extremely complex, but has been the subject of both distortion and mystification.

As Dean Forbes notes in Chapter 3, it has almost become a cliché to attribute to the Pacific Ocean for the next century the role played by the Atlantic over the last two hundred years and by the Mediterranean over previous millennia. To make such statements is to suggest two things: first, that Pacific Asia has a firm regional identity; and second, that economies of the region as a whole will come to occupy a pivotal role in the world economy.

In a way neither of these propositions can be supported–yet. Regional definitions are notoriously difficult to establish, largely because their essential character may be filtered at the periphery into a transitional zone in which boundaries are difficult to draw. Better then to arbitrarily designate a region and justify this through its heuristic qualities. In this volume, therefore, Pacific Asia will be taken

Table 1.1 Economic indicators for Pacific Asia, 1990

	Population (millions)	*GNP pc (US$)*	*Real GDP growth (%)*			*Export growth (% p.a.)*		*Export % from*		*% Employment*			*Human development index*[3]
			1960–70	*1970–80*	*1980–90*	*1965–80*	*1980–90*	*Primary*	*Manuft*	*Agric.*	*Man.*	*Services*	
Japan	3.1	23,810	10.9	5.0	4.0	11.4	4.6	2	97	8.3	3.1	60.6	.993
NICs													
Taiwan	20.3	7,953	9.2	9.7	10.2	28.5	16.3	4	96	20.5	41.9	37.6	
S. Korea	42.4	4,400	8.6	9.5	9.7	27.2	13.8	7	93	19.0	27.4	53.6	.884
Hong Kong	5.7	10,350	10.0	9.3	7.1	9.5	6.2	4	96	1.1	42.9	69.5	.934
Singapore	2.7	10,450	8.8	8.5	6.1	4.7	8.1	27	73	0.4	28.4	71.2	.879
ASEAN													
Brunei	0.3	21,000	—	—	—	—	-7.1[1]	100	0[1]	5.0	8.6	86.4	.861
Indonesia	178.2	500	3.9	7.6	5.3	9.6	2.4	68	32	54.4	8.0	37.6	.499
Malaysia	17.4	2,160	6.5	7.8	4.9	4.4	9.8	56	44	41.6	19.1	39.3	.802
Philippines	60.0	710	5.1	6.3	0.7	4.7	1.3	38	62	43.4	9.7	46.9	.613
Thailand	55.4	1,200	8.4	7.2	7.0	8.5	12.8	45	55	58.0	11.0	31.0	.713
Socialist													
China	1,113.4	350	5.2	5.8	9.7	5.5	11.5	30	70	73.7	13.6	12.7	.614
Cambodia	7.5	—	—	—	—	—	-5.6[1]	—	—	80.0	—	—	.175
N. Korea	21.0	1,114	—	—	2.0[1]	—		—	—	43.0	30.0	27.0	.665
Laos	4.1	180	—	—	—	—	-2.9[1]	—	—	75.8	7.0	17.2	.253
Myanmar	40.8	217[2]	—	—	—	-2.0	-11.7	84	16	64.0	9.0	27.0	.437
Viet Nam	64.8	—	—	—	—	—	—	88	12	67.5	11.8	20.7	.498

Sources: World Bank (1991) *World Development Report*, Washington; UNCTAD (1988) *Handbook of International Trade and Development Statistics*, Geneva; Far Eastern Economic Review (1990) *Asia Year Book*, Hong Kong; *Industry of Free China* (various).
Notes: 1 Up to 1986–7 only; 2 GDP; 3 Max. 1.000 composed of indices for life expectancy, education and income.

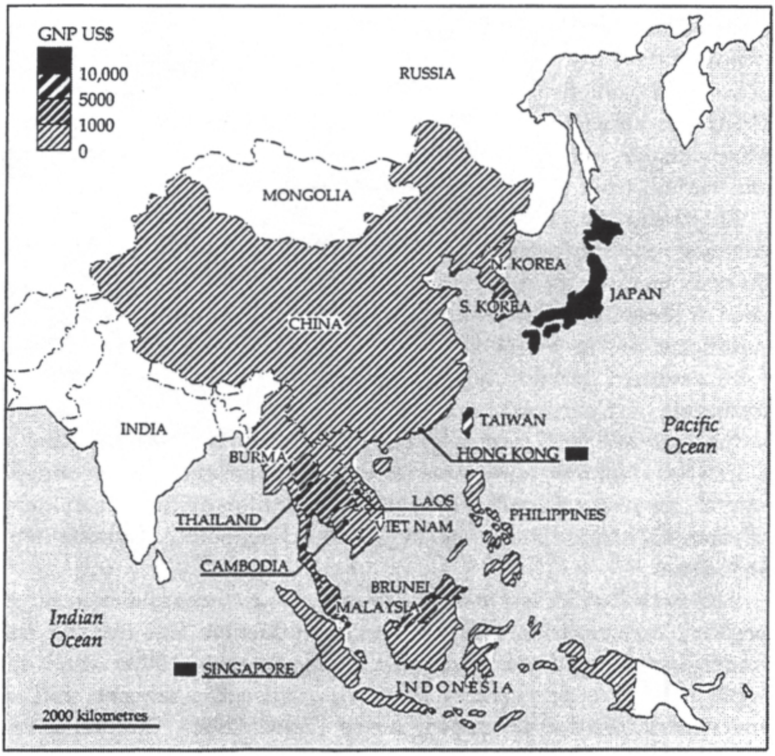

Figure 1.1 Pacific Asia: GNP per capita
Source: World Bank (1992) *World Development Report,* Washington

to mean the low- and middle-income countries identified in Figure 1.1. The 'Pacific Rim' includes, in addition, North and South America, Australasia, Oceania, Japan and what is left of the Soviet Union. It is almost as difficult to justify the claim that the Pacific will become the economic heartland of the twenty-first century. True, there are two economic giants present within the Pacific Rim, Japan and the United States, but some of the region's other economies are proving slow to mobilize whilst the ever-expanding European Economic Community continues to pump some energy into the allegedly spent forces of the Atlantic and Mediterranean basin. However, the Pacific Asian component of the Pacific Rim is clearly an expanding area in terms of its role in the world economy and it is not too difficult to illustrate that this role is both widening and deepening.

The integration of Pacific Asia into the world economy has changed over the years since mercantile capitalism spread into the region in the early sixteenth century. Its place in the rapid expansion of colonial capitalism in the late nineteenth century through to the 1970s was based primarily on those of its material resources which were valuable within the European trading system. These were many and varied, from pepper and palm oil to rubber and rice.

At present the region still produces and exports a wide range of primary resource commodities and dominates world production of several, such as tin, rubber and palm oil (Figure 1.2). The importance of these commodities as generators of export revenues is clearly significant but in recent years the material resources of the region have assumed greater importance as a basis for economic transformation. Of particular note in this context have been its oil and natural gas reserves, especially those located in and around the South China Sea. Not only have these resources earned valuable investment capital, they have literally fuelled the acceleration of the development of manufacturing industries in Japan, Singapore, Malaysia and Indonesia.

Although Pacific Asia is still an important producer and exporter of primary commodities, the nature of production and exports has undergone a rapid transformation since the early 1970s when the rapid decline in profitability in Europe induced a massive shift in investment into the developing world (Thrift 1986). The attraction was not only cheap labour, other criteria had also to be satisfied before investment took place, viz. an educated work-force, good infrastructure and communication, a 'sympathetic' state government and the like. The result has been selective investment which has affected regional economies to varying degrees and has changed their production structures at differing rates (Table 1.2).

Although, as Claes Alvstam illustrates in Chapter 4, foreign direct investment is often difficult to standardize, it would appear that in many countries foreign investment continues to promote primary resource exports, particularly in the fields of timber and oil (Dixon 1991), but for the most part it has sought to promote manufacturing. Here again there have been variations across space and through time, with textiles being supplemented by plastics or electronic products as the world market has changed and different production advantages have developed in individual countries.

As far as Pacific Asia's role in the world economy is concerned, not only have financial flows into the region increased dramatically, so

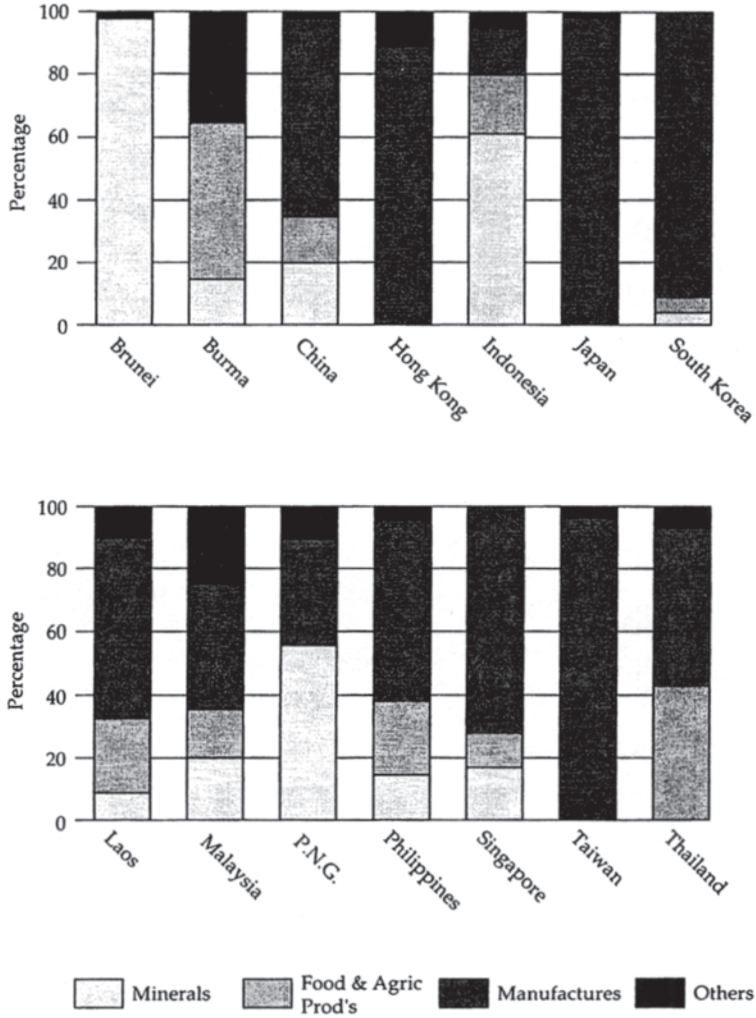

Figure 1.2 Pacific Asia: main export commodities
Source: Drakakis-Smith (1991)

also has its overall volume of trade, particularly exports of manufactured goods. These have progressed far beyond the toys and textiles stage and now encompass sophisticated products from what

Table 1.2 Pacific Asia: structural changes in the composition of GDP (%)

	Agriculture			*Industry*			*Manufacturing*			*Services*		
	1960	*1980*	*1990*	*1960*	*1980*	*1990*	*1960*	*1980*	*1990*	*1960*	*1980*	*1990*
Japan	13	4	3	45	41	41	34	29	30	42	55	56
NICs												
Taiwan	—	—	5[2]	—	—	—	—	—	43[2]	—	—	—
S. Korea	37	16	10	20	41	44	14	28	26	43	43	46
Hong Kong	4	1	0	39	30	28	26	27	21	57	69	72
Singapore	4	1	0	18	37	37	12	28	26	78	62	63
ASEAN												
Brunei	—	1	1[2]	—	85	69[2]	—	12	—	—	14	30
Indonesia	54	26	23	14	42	37	8	9	17	32	32	39
Malaysia	37	24	21[2]	18	37	25[2]	9	23		45	39	—
Philippines	26	23	24	28	37	33	20	26	22	46	40	43
Thailand	40	25	15	19	29	38	13	20	21	41	46	47
Socialist												
China	44[1]	31	32	39[1]	47	48	31[1]	—	34	17[1]	22	20
Cambodia	—	—	—	—	—	—	—	—	—	—	—	—
N. Korea	—	—	—	—	—	—	—	—	—	—	—	—
Laos	—	—	62[2]	—	—	6[2]	—	—	—	—	—	—
Myanmar	33	46	28[2]	12	13	14[2]	8	10	11[2]	55	41	—
Viet Nam	—	—	45[2]	—	—	26[2]	—	—	—	—	—	—

Sources: World Bank, *World Development Report,* Washington (various); UNCTAD (1988) *Handbook of International Trade Statistics,* Geneva; Far Eastern Economc Review (1990) *Asia Yearbook,* Hong Kong
Notes: 1 1965; 2 1988

until a few years ago would have been unexpected sources; for example, the growing automobile exports from South Korea and more recently Malaysia. However, the growing prosperity of the region, for all its unevenness, has also stimulated a growth in imports, not just of raw materials or energy but also of an extensive range of consumer goods, as societies strive to become more 'western' in values and appearance.

As trade of all kinds has increased, both exports and imports, so the nature and direction of that trade has changed over the last few decades (Figure 1.3). The old colonial ties to Europe were rapidily replaced by the post-war pre-eminence of the United States as the principle trading partner of the region, a trend which was accelerated by the decolonization process which the United States so warmly supported. In turn, however, Uncle Sam has been replaced by Japan as the trading giant of the region, although considerable variations exist for individual countries (Figure 1.3) and the United States remains an important export market.

More recently, several states in Pacific Asia have sought to develop their finance and producer services. For the most part, as in the case of Hong Kong and Singapore, these are regionally oriented services which are more properly discussed later in this chapter, but certainly with regard to Japan the role is clearly global in impact with the strength of the yen making Japanese banks by far the most dominant group in terms of assets and inducing a massive investment surge in land, property and production throughout the world. However, Japan is by no means alone in such activity and several of the Asian NICs, such as Singapore, Taiwan and South Korea, have built up impressive global investment portfolios (Figure 1.4).

Not all of the economic linkages between Pacific Asia and the rest of the world are confined to flows of goods and/or money. For many years there has been an increasing flow of people entering the international labour market, such movements ranging from the steady flow of workers to labour-short areas of the Middle East, to the more recent movement of professional and skilled labour to Australasia and North America.

All of the changes outlined above indicate the emergence of a region more economically integrated into the world economy than ever before, and yet it would be a mistake to think of the region as in any way homogeneous. Indeed, the social, cultural, political and economic contrasts and conflicts that exist within the region make it one of the most potentially volatile in the world. Ostensibly it would

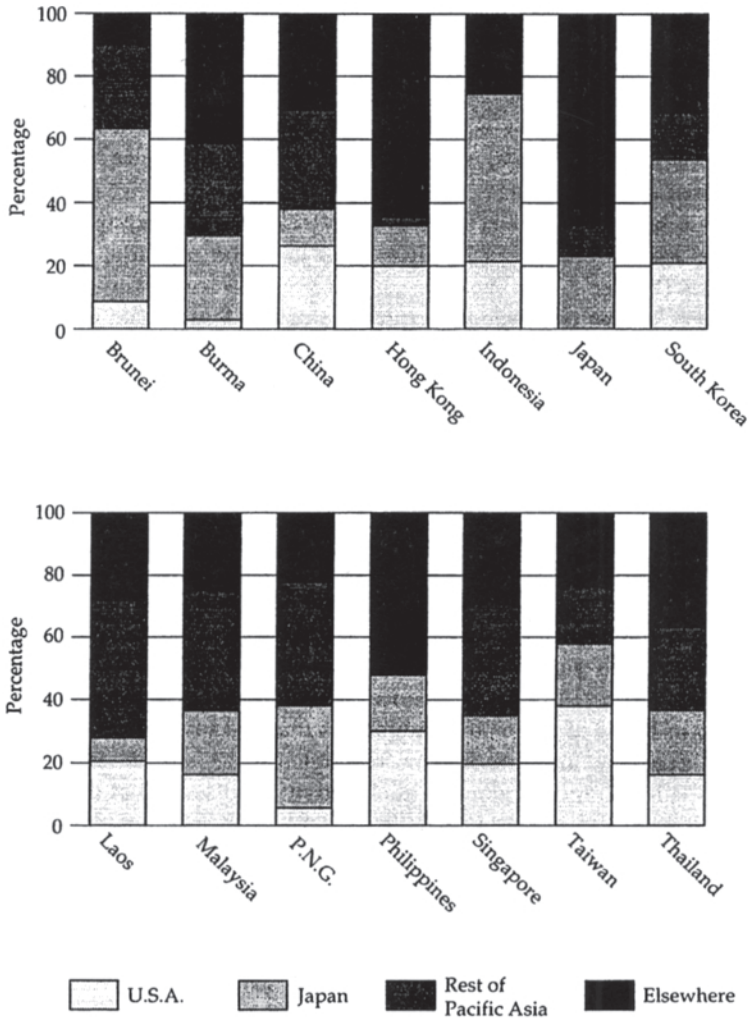

Figure 1.3 Pacific Asia: main trading partners
Source: Drakakis-Smith (1991)

appear that Japan is the fulcrum of the region and in many ways this would be true. Japan is one of the most wealthy nations in the world and has undoubtedly provided a role model for other Asian States to

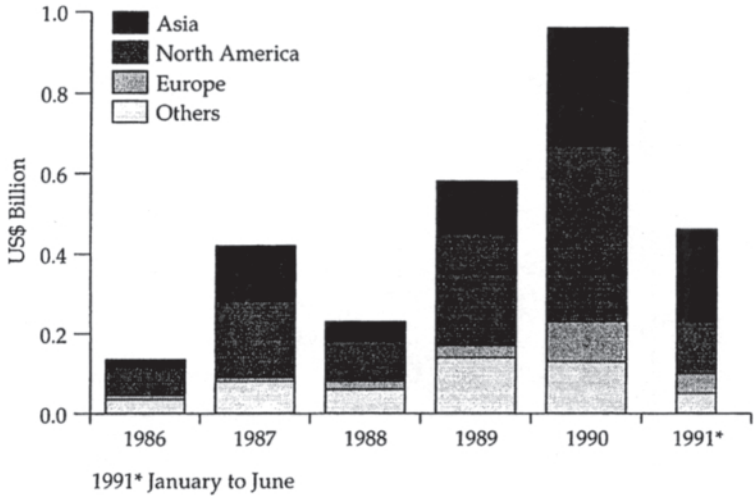

Figure 1.4 South Korea: direct investment
Source: Far Eastern Economic Review, 26 December 1991

follow. Japanese investment is substantial in almost every country in the region, (Figure 1.5), and those deficient in such funds are actively seeking them (see Foster-Carter's Chapter 10 on North Korea).

And yet the economic giant of the region has provoked and continues to cause resentment within the region. In the past this was linked to the hard terms on which war reparations were settled; later it was focused on the exclusivity-of the Japanese presence in the region–introspective enclaves of Japanese businessmen or tourists. Much of this resentment spilled over into anti-Japanese riots in the 1970s and it has taken a substantial amount of diplomacy and image-softening to change this situation. Even today, however, disquiet still exists and is growing about the reluctance of the Japanese government to open up its domestic market to imports from the region.

Nor are relations between the developing nations of Pacific Asia much better than those with Japan. The fluctuating fortunes of the regional trade and political associations are discussed below but Pacific Asia has had, and continues to have, its fair share of political, economic and social problems. Clearly the division between socialism and capitalism remains one important dimension of this regional fragmentation. The capitalist states have probably experienced the

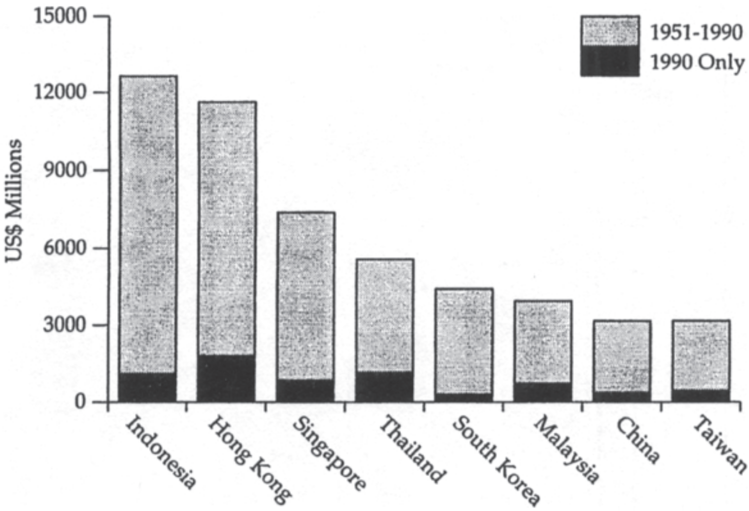

Figure 1.5 Japanese direct investment in Pacific Asia
Source: Financial Times, 10 December 1991

worst of the Communist insurgencies, but pockets of real and potential trouble still exist. Conversely movements to democratize state socialism are gaining ground and have proven, as in Myanmar (Burma), to be just as generative of violent conflict.

Many other political hot-spots exist within the region, such as the unresolved stalemate between the two Koreas, the patched-over situation in Hong Kong, and the separatist movements in East Timor, West Irian, Mindanao and Bougaineville. These situations can and do erupt very quickly into violent expressions of dissatisfaction and/or repression.

Add to all of this latent trouble widespread inequalities in the distribution of the wealth created in recent years (eloquently discussed by Dean Forbes in Chapter 3) and the result is a far from harmonious or homogeneous region whose record in human development is not consistent with its record in economic growth (Table 1.1). Not surprisingly, the much sought after Asian model of development has proved to be something of a chimera. So how did this development actually emerge?

THE EMERGENCE OF THE ASIAN NEWLY INDUSTRIALIZING COUNTRIES

During the 1960s Hong Kong, Singapore, South Korea and Taiwan became the 'second generation' exporters of labour intensive manufacturing goods. They were ideally located and equipped to occupy the position vacated by Japan. On the basis of this between 1960 and 1980 the real annual growth in exports from Taiwan and South Korea was respectively in excess of 25 and 20 per cent. While the historical experience, economic structure and geographical situation of Hong Kong, South Korea, Taiwan and Singapore are radically different they were all able to exploit the structural change in the Japanese economy and the broader processes of internationalization. It has been widely asserted (Kuznets 1982; Patrick 1977) that the success of the Asian NICs has been the result of a situation where 'State intervention is largely absent. What the state has provided is a suitable environment for entrepreneurs to perform their functions' (Chen 1979:83–4).

This theme of lean or minimal government runs through the literature on Taiwanese and South Korean development (White and Wade 1988; Wade 1988; Luedde-Neurath 1988). The Friedmans (1980) go further, arguing that the successful Asian economies are those which rely heavily on the private market while those that rely on central planning have stagnated. Closer investigation of Taiwan and South Korea reveals that they are 'guided market economies', where the state has to varying degrees become involved directly in production and the regulation of the market but has principally intervened by influencing market forces by shifting the composition of what is profitable (White and Wade 1988).

In Singapore the role of the state has been both more overt and more all-pervading. Singapore has been described by Mirza (1986) as a 'miracle by design' where:

> The Singapore state apparatus is one of the most powerful in the third world and can indeed be regarded as the epitome of the 'hard state' described in the development literature. The government uses the apparatus to exert considerable control over the economy and this is reflected in the scale of state expenditure, the activities of state-owned enterprises and even in the rate of national savings.
>
> (Mirza 1986:49–50)

Indeed few aspects of economic or social activity escape some form of state regulation or control (Dixon 1991; Wilson 1978).

While the view that the state has played a major role in the development of Singapore, South Korea and Taiwan has become increasingly accepted since the early 1980s the view that Hong Kong is 'different' has persisted. Jeff Henderson (Chapter 5) argues that the state has also played a major role in the development of Hong Kong. This role is merely more deeply based and subtle in its application.

The persistence of the myth of the Asian NICs 'lean state' development has four main roots. First, the states themselves made considerable efforts to project liberal economic images so that other countries would have as few grounds as possible to improve trade restrictions. As White and Wade (1988) have stressed, both Taiwan and South Korea 'have been successful in making many of their contracts on trade disappear from view'. Second, many studies merely looked at the apparently liberal external trade regimes to the exclusion of the internal economic and social structures that lay behind them. Third, those writers who accepted that there was state intervention during the 1950s and early 1960s which was largely eliminated have generally confused a limited degree of liberalization with a liberal trade policy. As White and Wade (1988:5) have argued, 'when a tariff reduction from 60 to 50 per cent is taken as evidence of liberalization, attention is being held by the 10 per cent reduction to the exclusion of the 50 per cent which remains'. Finally there was considerable vested interest on the part of international agencies, developed world governments and associated experts to present the 'Asian miracle economies' as the product of free market capitalism.

The crises that affected the East Asian NICs during the early 1980s exposed the extent to which the South Korean and Taiwanese states had intervened in the market. For the international agencies the 'discovery' of the previously 'hidden' distortion to the markets in these economies was seen as a cause of their economic difficulties rather than a key element in their past economic success. Thus various structural adjustment programmes aimed at removing the 'distortions to the market' were advocated. It is accepted in this volume that in all the Asian NICs development involved in the established powerful state apparatuses, a high level of central direction of the economy, a commitment to the attraction of FDI and TNCs, and the promotion of exports. Three chapters of this volume address the common features of the 'big state' (Jeff Henderson, Chapter 5), the development of infrastructure (Terry McGee and Cusheng Lin, Chapter 7) and foreign investment (Claes Alvstam, Chapter 4). However, the unique experiences that gave rise to these similar strategies render attempts to produce an East Asian 'model' of development largely futile. In addition, despite the superficial similarities of their high rates of growth of GDP and export earnings the patterns of growth and economic structures are remarkably different (Harris 1986:68–9). However, the myth persists that there was a uniform Asian NIC experience of industrial development which was a product of laissez-faire capitalism and is now being followed by other states in pacific Asia (see Berger and Hsiao 1988).

While there has been considerable debate over the nature and causes of growth in the Asian NICs their image as examples of exceptionally successful development has seldom been questioned. In Chapter 3 Dean Forbes stresses that their dynamic image was essentially one-sided, neglecting the unevenness of development, the persistence of poverty and the implications for the development of civil society. Two major areas of debate follow from this view. First, the degree to which poverty and uneven development persist in the region and the degree to which they may be regarded as the product of state policy or the lack of it, as against processes innate to capitalist development. Second, the extent to which the presence of pockets of political dissatisfaction will undermine political stability and hence the sustainability of development. Such discussion casts further doubt on the applicability of the East Asian NICs' experience to Third World economies in general and other Pacific Asian countries in particular.

THE INDUSTRIALIZATION OF THE ASEAN FOUR

During the 1970s the acceleration of the process of internationalization, accompanied by further structural change in the Japanese economy, opened the way for the development of major manufacturing sectors in Indonesia, Malaysia, Thailand and the Philippines. These countries were ideally placed to benefit from the 'spill-over' following the development of labour intensive manufacturing in Hong Kong, Taiwan and South Korea as Japan vacated such areas of activity (Ariff and Hill 1985). By the early 1970s export orientated industrialization had become the 'new orthodoxy' urged on Third World countries by the World Bank (Meier 1976). However, as Robinson *et al.* (1987:7) have noted, the countries of 'South East Asia were not automatically subsumed into the NIDL [New International Division of Labour]'. Import substitution and primary production, as noted earlier, continued to play major roles. In part the continuation of import substitution can be explained by inertia and vested interest, particularly where it was related to complex and entrenched bureaucratic structures. Very complex interrelationships had developed between government, military, bureaucracy, domestic capital and those elements of international capital that had become involved in the often highly protected and subsidised import substitution sectors. The degree to which a government was able or indeed wished to replace import substitution depended on the strength of the structures that had been established. In all the ASEAN economies the state has played a major role in development (see John Wong in Chapter 6). The relative weakness of indigenous capital is reflected in the extent to which the military and the bureaucracy have come to exert decisive control over the state apparatus. In general the policies of repression of labour organizations, subsidies on power and food, protectionism and investment in infrastructure and production have fostered the development of domestic capital.

Similarly, in some countries, involvement was limited by investors' assessment of their stability. This was particularly the case with Thailand, whose proximity to Viet Nam, high level of insurgency and propensity for military coup d'états discouraged investors and multinational corporations. In addition, the changes in the world economy that fostered the NIDL paradoxically also created conditions that made it possible for some countries to choose to remain largely outside of it. In the early 1970s international capital, including 'aid' and 'soft' loans channelled through such agencies as IBRD and UNDP remained widely available to finance import substitution and associated development. American involvement in Viet Nam was also important in maintaining capital flows into countries and sectors to which international capital would not normally have been attracted. This was particularly the case in Thailand and the Philippines. Similarly, in the case of Malaysia and more particularly Indonesia, earnings from the export of oil and gas were available to finance import substitution. More significantly after 1973, the availability of surplus capital, mainly recycled petro-dollars, made it comparatively easy for countries to borrow heavily.

The dismantling of ISI and the fuller integration of the ASEAN four into the international economy stemmed from the radically different international and domestic circumstances that emerged from the early 1980s. The crises that have affected the ASEAN economies since the late 1970s have resulted in domestic and international pressure for major 'economic-restructuring'. This appeared first and most clearly in Thailand, where, following the crisis of 1981, the IMF and IBRD imposed a programme of 'structural adjustment'. This took the form of conditions attached to structural adjusted loans. In summary the programme set out to reduce the balance of payments deficit, state expenditure, inflation and budget deficit. This involved the reduction of subsidies, tariffs, public monopolies, state involvement in production, and 'other distortions of the market'. Similar programmes or key elements of them have been imposed on, or adopted by all members of ASEAN (Dixon 1991). Overall in ASEAN there has been a general reduction in the level of control over foreign investment and business activity. However, in many instances measures have comprised little more than the streamlining of existing procedures. The practical consequences of many elements in the structural adjustment programmes implemented are of far less significance than the 'messages' sent to investors.

From the early 1980s the East Asian NICs began to lose their advantage in labour intensive manufacturing. In the case of Singapore this was encouraged as a matter of policy. In the words of the Director of the Economic Development Board:

> We decided…that making transistor radios was not a job for us. Nor do we want workers in the rag-trade. We want technical services.
>
> (Smith *et al.* 1985:87)

Rising costs, concern over pollution and shortages of industrial land caused domestic and international investors to seek lower cost locations. The ASEAN four were well placed to take advantage of this. Since the early 1980s much labour intensive production has been relocated from the East Asian NICs. There has been a rapid expansion of investment in the ASEAN manufacturing sectors of the ASEAN four by Hong Kong, South Korea and Taiwan. Taiwanese investment has expanded particularly rapidly following the relaxation of exchange controls in 1987. The influx started in Thailand in 1987, spreading into Indonesia, Malaysia and the Philippines during 1988 and 1989. In the Philippines Taiwan's share of realized investment rose from 1 per cent in 1987 to 14.7 per cent in 1989. While some 'higher-tech' plants have been established, notably in Thailand, the main development has been of labour intensive low-value products.

Since 1987 Taiwan, South Korea and Hong Kong have rivalled Japanese investment in the region. In 1988 and 1989, 31 and 30 per cent of approved investment in ASEAN was from the East Asian NICs, compared to 31 and 31 per cent from Japan.

Clear regional divisions of labour are now appearing between the East Asian NICs and the ASEAN four. This takes two forms: first between Taiwan, Hong Kong and South Korea and the ASEAN four; and second between Singapore and the other members of ASEAN. Both of these structures are complex with, for example, a clear sorting out of the location of process according to the degree of labour intensity. This is particularly evident in Taiwanese investment. Here more skill-intensive production has gravitated towards Malaysia, where labour costs are higher, but skilled labour more plentiful. In contrast less skill-intensive processes have gone to Thailand where labour costs are lower. While a similar pattern is evident in Singapore investment there is also a striking spatial pattern. An 'inner triangle of growth' is emerging (Figure 1.6) comprising Singapore, Johore and the Indonesian island of Bataan. Singapore's Prime Minister, Goh Chok Tong, stated that he envisaged Bataan, Johore and Singapore forming an 'inner triangle of growth with ASEAN' (*Far Eastern Economic Review,* 8 March 1989:36).

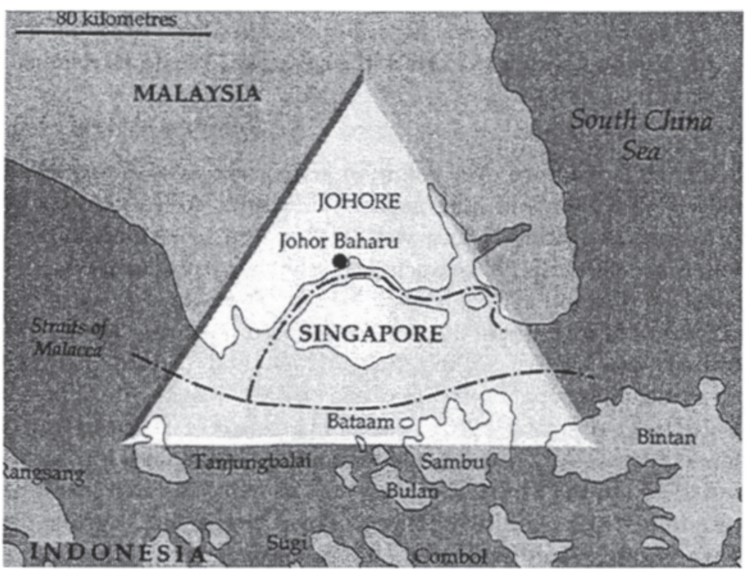

Figure 1.6 The inner triangle of growth

These developments fit in with Lee Kuan Yew's vision of Singapore as the economic hub of South East Asia through which multinational corporations:

> …can serve not only their home market, but also the regional and world market. Furthermore, they can tap the region's bigger and cheaper labour pool. Labour-intensive parts of a product can be done in neighbouring countries and exported to Singapore for more capital- or skill-intensive operations.
>
> (speech delivered in Tokyo, *Far Eastern Economic Review,* 18 August 1989:77)

The structural reforms and the influx of, in particular, East Asian investment has resulted in the rapid expansion of the manufacturing sectors of Thailand, Indonesia and Malaysia. This has been most striking in Thailand. The remarkable boom that the Kingdom has experienced since 1985 has been accompanied, rather than caused, by the wide ranging policies of structural adjustment. In sum, the reforms together with a rapid influx of FDI and TNCs have internationalized the Thai economy. Until the early 1980s Thailand was significantly less integrated into the international economy than Indonesia, Malaysia and the Philippines. To a degree the Kingdom's lower degree of integration shielded the economy from the vicissitudes of the 1970s.

The Thai boom illustrates particularly well the difference between the second and third generation exporters of labour-intensive manufacturing goods. Despite various financial and fiscal reforms the Thai government exerts nothing like the control over the economy that is the case in the East Asian NICs. Indeed the reforms have moved sharply in the direction of the false laissez faire model of the Asian NICs. Thus Thailand is running increasingly with the forces of the international economy rather than significantly influencing its own direction. This increased integration into the international economy and the removal of various 'safety net' controls have combined to make the economy and the majority of the population extremely vulnerable.

Second, unlike the Asian NICs Thailand and the rest of the ASEAN four have a predominantly rural population that has not benefited from the post-1985 growth. Indeed the growth has been heavily concentrated in the Bangkok region. Thus Thai manufacturing export boom has taken place without the radical restructuring of the rural sector that the particular circumstances made possible in South Korea and Taiwan.

Third, the Thai boom has revealed the fundamental weakness of the country's infrastructure and training programmes. This highlights the importance of the major infrastructure and training programmes in the sustained and highly adaptable growth patterns of the East Asian NICs. In comparison, Thailand's rapid expansion of labour-intensive manufactured goods looks vulnerable, single-dimensional and undirected.

THE FOURTH GENERATION?

The partial re-engagement of China, and more recently the former Indo-Chinese states, with international capital raises the possibility of a fourth Asian generation of exporters of labour-intensive manufactured goods. The Pearl river delta has long been heralded, particularly by Ghangzhou itself, as the 'fifth dragon'. Dwyer's chapter (8) offers a sanguine appraisal of such claims.

Increasingly attention is also being focused on the opening of Myanmar, Laos, Cambodia and Viet Nam to international capital (*Far Eastern Economic Review,* February 2 1989:12–13). Viet Nam, in particular, is widely regarded as 'the Asian economy to watch'. Ric Volkes and Ingrid Palmer in Chapter 9 provide a comprehensive background to the re-engagement of Viet Nam with the international economy and the establishment of elements of a market system.

The Thai government has taken a lead within ASEAN in establishing links with Viet Nam and Myanmar (*Far Eastern Economic Review,* 1988:88–9). The raw materials and markets of these neighbouring states are envisaged as playing a major role in Thailand's achievement of NIC status during the 1990s. This view is encapsulated in Prime Minister Chatichai Choonhavan's often quoted remark on the need to convert 'Indo-China from a battlefield to a market place'. A number of trade and investment projects have been agreed notably with respect to timber. However, given the deficiencies of Thai infrastructure and the poor linkages with the neighbouring states the prospect of Thailand becoming the core of a mainland South East Asian division of labour—'the Singapore of the mainland'—remains open to serious doubt. While Thailand would gain from the opening of Laos, Cambodia and Viet Nam to international capital it would seem unlikely that in the long term Thailand would act as a conduit for foreign investment in these countries. The limited amount of investment that has been channelled in this way reflects attempts to avoid offending American and ASEAN sensibilities. With the progressive breakdown of the American inspired embargo, the settlement of the Cambodian issues and the regularization of relations with ASEAN direct trade and investment have grown rapidly. Within the Asian region Thailand has been followed by Taiwan, Singapore and Malaysia. Taiwan is now the largest investor, followed by Australia, France, Hong Kong and the UK.

The persistence of the American embargo undoubtedly continues to contribute to investors' wariness. However, Washington is under increasing pressure from domestic business interests to lift the ban. It is expected that the lifting of the embargo will result in a major influx of Japanese investment comprising in the main new increments diverted from locations within ASEAN.

The influx of investment since 1989 has been mainly into the exploitation of raw materials. However, given the low cost and comparatively educated Vietnamese labour force, the potential for development by labour-intensive manufacturing is considerable. While such development rests ultimately on the confidence of international investors in the continued receptiveness of the Vietnamese regime, it is becoming increasingly attractive to investors in view of the rising costs, congestion and political and economic uncertainty which in varying degrees affect Malaysia, Indonesia, the Philippines and Thailand.

North Korea is generally excluded from both analysis of Pacific Asian industrialization (see White and Wade 1988) and discussion of the prospects of socialist countries re-engaging with the international capitalist economy. Yet as Aidan Foster-Carter (Chapter 10) states, it was the first Pacific Asian economy after Japan to establish a major industrial base and its per capita GNP appears to be relatively good (see Table 1.1). Notwithstanding such indicators, a major reason for this neglect is the lack of reliable data. Indeed there is little exaggeration in Aidan Foster-Carter's assertion that the problem with North Korea is 'that there are no data and no one knows anything about it' (Foster-Carter 1990).

The development of North Korea has followed a pattern common to the socialist Asian states in general: rapid development, followed by stagnation. The basic contradiction of trying to build socialism in an isolated and backward economy. In Chapter 10 Aidan Foster-Carter charts the early successes and subsequent stagnation and breakdown of planning in North Korea. He paints an elegant and persuasive scenario of the inevitability of re-unification and re-engagement during the 1990s.

The centrally-planned economies of China, Viet Nam and North Korea have marked similarities with the East Asian NICs where the economies have been highly managed by the state. While re-engagement and the re-establishment of the market system poses serious problems and is by no means an inevitable or one-way process, it is likely that the former socialist states will form a fourth generation of labour-intensive manufacturing economies which will have more in common with the first generation East Asian NICs than the third generation ASEAN four.

For international capital the location, together with the cheap and comparatively educated work-force of China, Viet Nam and, perhaps in the near future, North Korea have to be weighed against the poor infrastructures, lack of development funds, very partial adoption of the market economy and the often still shifting and far from predictable behaviour of the bureaucracy.

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2

THE GROWTH ECONOMIES OF PACIFIC ASIA IN THEIR CHANGING GLOBAL CONTEXT

Peter Dicken

INTRODUCTION

The growth economies of Asia are a highly heterogeneous group of countries, far more so than is often recognized. Their spectacular, but differential, growth in the past few decades cannot be explained in simplistic terms. Such explanation demands a careful analysis of the specific ways in which internal and external forces–economic, political, social, cultural–have combined to produce particular outcomes. External forces have played an extremely important role in the growth of the Asian economies, although not in the excessively simplistic manner suggested by the rather primitive conceptualizations of much of the new international division of labour literature. (For important critiques of this literature, see Jenkins 1984, Schoenberger 1988, Henderson 1989.)

The aim of this chapter is to examine the global context in which the Asian growth economies have evolved and currently operate. There is no doubt that the particular configuration of global conditions–both political and economic–in the three decades following the end of World War II was especially conducive to the manufacturing export-led growth of a small number of East and South East Asian economies. However, the period since the mid-1970s has presented a very different global environment. Within the context of oil-price shocks and of a widespread recession and restructuring in the global economy, recent years have seen heightened politico-economic tensions between international actors and the emergence of new combinations of businesses and of states. The growth economies of Asia are the focus of many of these global economic tensions. Their very success has caused them to be a major competitive threat to the Western industrialized nations. Thus, in examining the changing global context of the growth economies of Asia, we need to be as concerned with their impact on other parts of the world as with the influence of the global economy upon them.

In attempting to illuminate some of the key developments this chapter is selective, rather than comprehensive, in its coverage. It is based upon the notion that the major driving forces in the global economy derive from the complex interaction between the internationalization–indeed, globalization–of capital (primarily channelled through the transnational corporation) and the actions of national governments set within a volatile context of pervasive technological change. The latter is taken here as a given although, without question, technological innovation is one of the major driving forces in global economic change, in the intensification of competition and in contributing towards major economic and social restructuring at local, national and international scales. (For particular discussion of the role of technology in global economic change, see Guile and Brooks 1987.)

The chapter is organized around three major themes:

1 Recent global trends in production and trade and the changing position of the Asian growth economies.
2 Trends in transnational corporate activity and strategies, including both the growth and spread of foreign direct investment and the emergence of increasing variety in the modes of international involvement by business enterprises.
3 Developments in the international economic strategies of the Western industrialized countries, particularly changing attitudes to trade (the development of strategic trade policy) and foreign investment (the increasing use of performance requirements) and the strengthening of regional economic groupings.

A more comprehensive discussion of these topics can be found in Dicken (1991).

RECENT GLOBAL TRENDS IN PRODUCTION AND TRADE

A particularly significant feature of recent decades has been the manner in which the growth of trade has outpaced the growth of production in the global economy. In 1988, total world exports were four times greater than in 1960 while total world output was a little under three times greater than in 1960. This divergence in the two growth rates is a clear indication of the increasing degree of interconntectedness in the global economy. It has been especially significant for the development of the Asian growth economies. Although there has been a dramatic upsurge in the internationalization of service activities (GATT 1989), the major sector driving the upsurge in both international production and especially international trade has been manufacturing industry. In 1963, 52 per cent of world merchandise trade was of manufactures; by 1988 this share had increased to 73 per cent.

Despite the substantial internationalization of both production and trade during the past four decades, its actual geographical extent is highly uneven. Although industrialization has increased in the developing world, both its breadth and its depth are very limited. The Asian NICs are the exception rather than the rule. A mere twenty-five countries produce 93 per cent of world output; as few as seven countries produce three-quarters of the world total. Similarly, the geography of international trade is extremely uneven at a global scale. However, it is as exporters, especially of manufactures, that the growth economies of Asia have become particularly significant.

Figure 2.1 shows, in diagrammatic terms, the trade network of the leading East and South East Asian economies in 1987. The diagram is based upon the IMF Direction Trade data which unfortunately exclude Taiwan. Several points are worthy of emphasis. First is the dominance of Japan in terms of both the total volume of exports and also of export flows within the region. Second, there is a clear quantitative difference between the leading NICs of the region, Hong Kong, South Korea and Singapore, and the rest. Third, there are substantial differences between the Asian economies in the importance of intra-regional exports. Fourth, and especially important for our present discussion, it is evident that the United States is by far the most important export destination outside the region. Indeed, not only are all the Asian growth economies disproportionately dependent upon the United States market but also they account for a very substantial share of the United States' massive trade deficit.

Figure 2.2 summarizes the global position of East and South East Asia in relation to the two major economic regions of North America and the European Community. These three regional blocs form what Ohmae (1985) calls the 'triad' which sits astride the global economy like a modern, three-legged Colossus. These three regions dominate global production and trade. Seventy-seven per cent of world exports

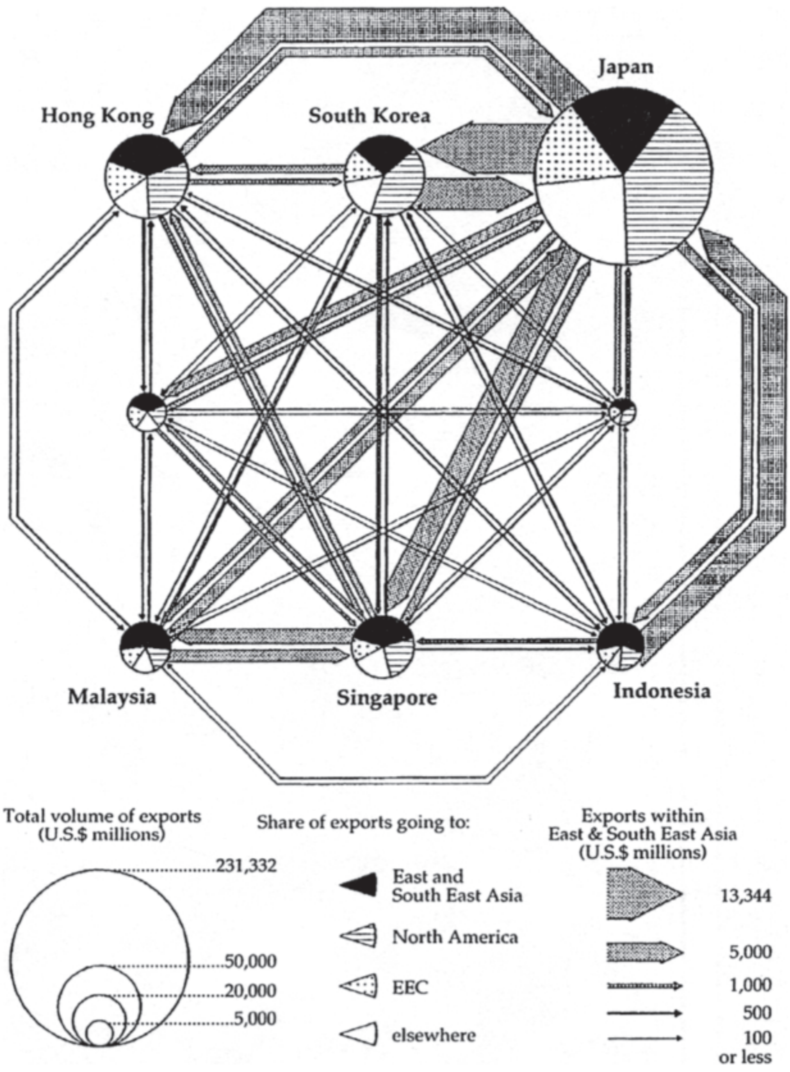

Figure 2.1 The international trading network of the Asian growth economies, 1987

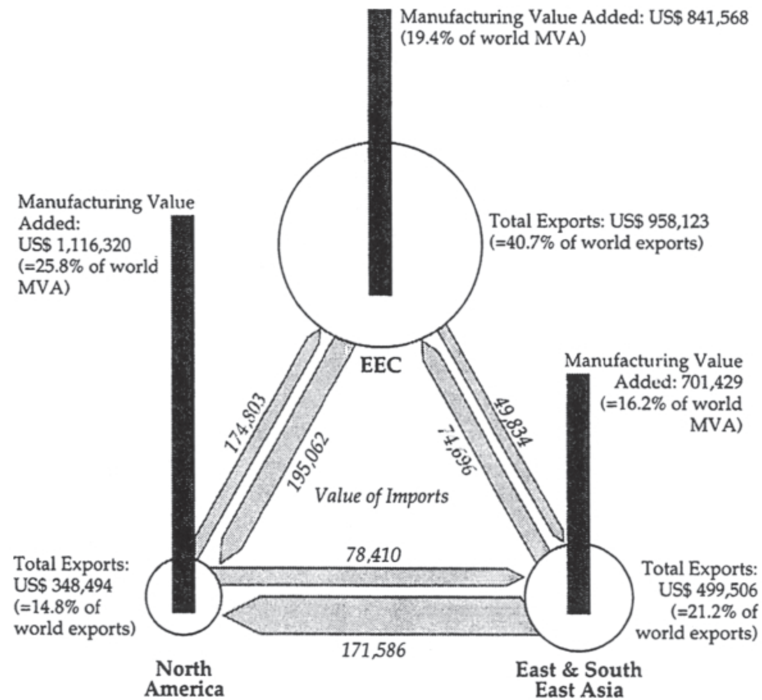

Figure 2.2 East and South Asia as one component of the global economic triangle

are generated by them; 62 per cent of world manufacturing output is produced within them. As Figure 2.2 reveals, not only is the Asian leg of the triad now highly significant in terms of both production and trade but also it has a very large surplus of exports with both North America and the European Community.

GLOBAL TRENDS IN TRANSNATIONAL CORPORATE ACTIVITY

The changing global map of production and trade viewed through the lens of national aggregate performance is one measure of the changing global context with which we are concerned. What these figures do not reveal are the massive changes which have been occurring in the organization of business enterprises and, especially, their increasing internationalization and, in some cases, globalization. But although there are some clear overall tendencies, there are also substantial differences between sectors and geographical areas. Figure 2.3 sets out the major modes of involvement which foreign TNCs may adopt. The term 'involvement' rather than 'investment' is used deliberately for, as Figure 2.3 indicates, direct investment is only one of several possible modes. This suggests that we need to adopt a much broader definition of the transnational corporation than one which equates it simply with foreign direct investment. In this spirit, Cowling and Sugden's definition is especially appropriate: a TNC 'is the means of co-ordinating production from one centre of strategic decision-making when this co-ordination takes a firm across nation boundaries' (Cowling and Sugden 1987:60). The key element is strategic co-ordination of activities–whether or not actually owned–across national boundaries.

Foreign direct investment is one particularly important form which such strategic co-ordination may take. It is the one for which the most comprehensive statistical data exist. In fact, the FDI statistics greatly underestimate the extent of overall international involvement by business enterprise, partly because of constraints and inconsistencies in the statistical data themselves and partly because of the recent rapid development of other forms of non-equity participation in overseas markets. Foreign direct investment, or the establishment of wholly- or majority-owned facilities overseas by business firms, became progressively more significant in the world economy after World War II. Growth of FDI was especially rapid between the 1950s and 1970s in the context of the very rapid growth of production and trade in the

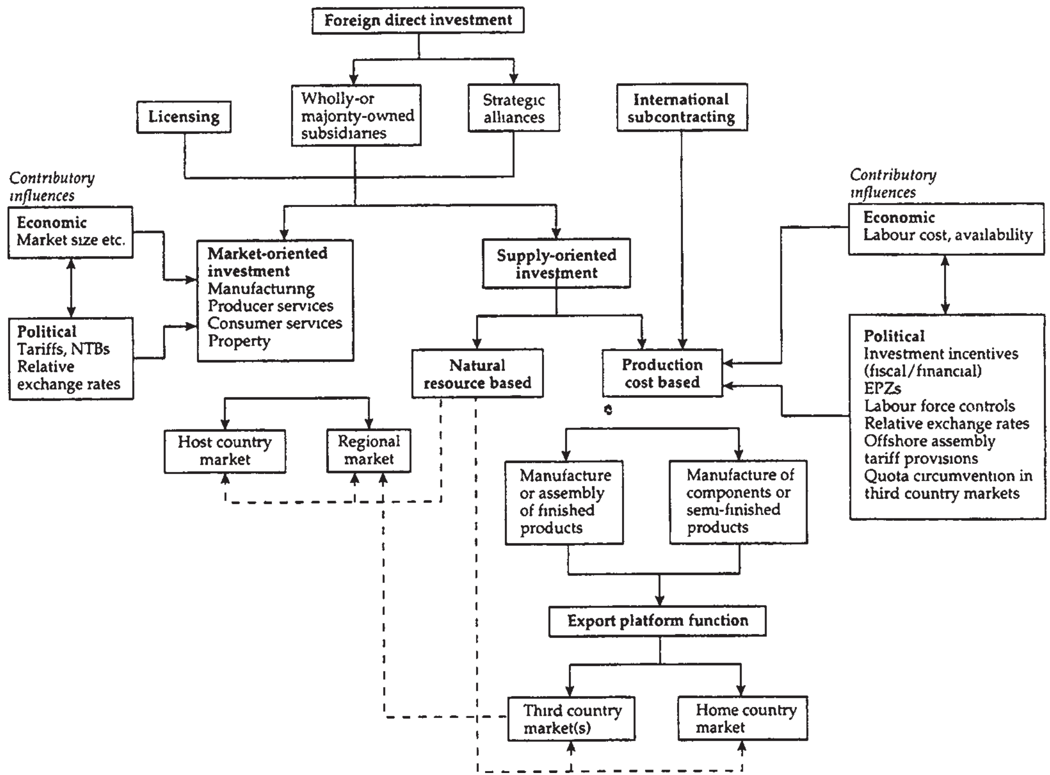

Figure 2.3 Modes of involvement in an economy by foreign transnational corporations

world economy. According to OECD estimates, there was some slowdown in the rate of growth of FDI between 1974 and 1983 but, overall, FDI has remained more buoyant than domestic investment throughout the post-war period. Indeed, recent work by Julius claims that 'whereas in the 1960s FDI grew at twice the rate of GNP, in the 1980s it has grown four times as fast as GNP' (Julius 1990:60)

The extremely rapid post-war proliferation of TNC subsidiaries was driven initially by United States firms. However, more recently very substantial shifts have been occurring in the geographical origins of such investment. For most of its history, FDI has been overwhelmingly dominated by the United States, the United Kingdom and one or two continental European countries. From the 1950s to the mid-1970s, United States' firms accounted for between 40 and 50 per cent of the world total. In 1960, the United States and the United Kingdom combined accounted for two-thirds of the world total. By 1985, this share had fallen to less than half as other source nations increased in importance. The growth rate of United States FDI appeared to have peaked in the late 1960s and early 1970s (UNCTC 1988:22), although there are clear signs of renewed activity. In Europe, it was Germany which enhanced its share of world FDI (1.2 to 8.4 per cent) but most significant has been the recent, but increasingly rapid, growth of Japanese FDI (0.7 per cent to 11.7 per cent). From being a very minor player in terms of FDI in 1960 and not even especially important in the mid-1970s, Japan has quite recently come to dominate flows of FDI.

An additional component of the increasing geographical diversity of sources of FDI is the recent development of overseas direct investment by firms from the East and South East Asian NICs, notably South Korea, Taiwan and Hong Kong. As yet, the levels are relatively small but such small beginnings are almost certainly the harbinger of important future developments.

Equally significant, but very different, shifts have been occurring in the geographical destinations of FDI. Fully 75 per cent of world FDI went to the developed market economies in both 1975 and 1986, but the detailed distribution of that investment has changed substantially. First, the geographical orientation of the three major source countries shifted substantially. For example the emphasis of United States FDI on developed economies increased from 69 per cent in 1970 to 76 per cent in 1987. The share accounted for by Europe increased from 33 per cent to 48 per cent, while, conversely, Canada's share of United States FDI declined from 28 per cent to 18 per cent. Direct investment in Japan from the United States increased from 2 per cent to 4.6 per cent of the total. Within the developing country bloc, there was a relative shift towards Asia and away from Latin America.

During the 1950s, most of the United States direct investment in the Asian region was located in India, the Philippines and Indonesia. Together, these accounted for 90 per cent of the region's total. By 1988, however, this share had fallen to a mere 18 per cent as the geographical focus of United States transnational investment shifted strongly towards such countries as Singapore, Hong Kong, South Korea and Taiwan. These four countries alone were host to 68 per cent of the total United States manufacturing investment in the Far East in 1988 while Malaysia and Thailand accounted for a further 14 per cent. By 1988, therefore, four-fifths of United States manufacturing investment in the region was in these six East and South East Asian NICs. Of the six, by far the largest concentrations were in Singapore (32 per cent) and Taiwan (18.5 per cent). There was particularly spectacular growth of employment in United States manufacturing affiliates in East and South East Asia. For example, in 1966 United States TNCs employed a mere 1,750 manufacturing workers in Malaysia, 1,232 in Singapore and 4,804 in Taiwan. By 1987, Malaysia's employment in United States manufacturing firms had grown to 54,000, Singapore's to 38,400 and Taiwan's to 49,100. Each experienced rates of increase well in excess of 1,000 per cent and in the cases of Malaysia and Singapore the increase was around 3,000 per cent.

The United Kingdom's investment orientation also reinforced its developed country bias, but with a massive increase in the emphasis on the United States as a destination and very little change in the share of its direct investment going to Europe. Only 6.5 per cent of United Kingdom FDI in manufacturing is located in East and South East Asia compared with 10.6 per cent of United States manufacturing FDI. The largest concentrations of British direct investment in the region are in Singapore, Hong Kong and Malaysia. The geographical pattern of German foreign direct investment is also strongly oriented towards developed country destinations. Within developing countries, the German emphasis has been on Latin America rather than Asia.

As noted earlier Japan, the leading growth economy of Asia, has only recently become a major overseas investor. Geographically, the emphasis of such investment until the second half of the 1970s, was the East and South East Asian region itself (Dicken 1988). Japanese firms still dominate in the region through their development of strategies of vertical and horizontal integration. Parts of most of the region's national economies have been incorporated into an intraregional division of labour focused on Japan. The major revaluation of the Japanese yen in the autumn of 1985 together with the intensification of trade tension between Japan and the Western economies in sectors such as electronics have added a further stimulus to Japanese FDI in East and South East Asia. Large numbers of Japanese manufacturing firms have moved routine manufacturing operations off-shore to the Asian NICs. However, the major shift in the geography of Japanese FDI has been towards the United States and, to a lesser extent, Western Europe. Such investment has been stimulated directly by the fear of exclusion from these markets by the kinds of discriminatory trade and investment measures discussed below. As a result, 36 per cent of total Japanese FDI in 1987 was in the United States compared with 21 per cent in 1976.

The second point to make is that, in general terms,

> during the 1970s it became clear that the distinction, more or less valid during the 1950s and 1960s between countries playing mostly the role of home countries for international direct investment and countries playing mostly the role of host countries was becoming blurred. Among OECD countries, inward and outward flows tended to become on the average more balanced….
>
> (OECD 1987:12)

In other words, the degree of cross-investment between the industrialized countries has increased very substantially. The pattern of FDI flows has become far more complex, a further indication of intensified competition in the world economy.

Third, the most significant development of all has been the dramatic change in the position of the United States as a host country for foreign direct investment. In 1975 the inward investment stock in Europe was four times greater than that in the United States; by 1985, the stock of FDI in the United States just exceeded that in Western Europe. In terms of share of the world total, Western Europe's share declined from 41 per cent in 1975 to 28.9 per cent in 1985; the United States' share increased from 11 per cent to 29 per cent. For every leading investing country, the United States became significantly more important as firms in Europe and Japan re-oriented the geographical focus of their overseas direct investments. The United States direct investment position was transformed from one of being overwhelmingly a home country for FDI to one in which the ratio of outward to inward investment was almost in balance and much closer to that of Western Europe. The same cannot be said of Japan. While Japanese outward investment has grown very rapidly, there has been only very limited growth of inward investment. The outward/inward ratio increased from an already exceptionally high level of 10.65 in 1975 to 12.32 in 1983. Whereas in 1985 Japan accounted for almost 12 per cent of total world outward direct investment, it was the host to only 1.5 per cent of world inward investment. Along with trade frictions, this huge imbalance in the Japanese inward/outward investment account is causing major concern among businesses and policy makers in the West.

These shifting patterns of foreign direct investment are one significant indicator of transnational corporate activity in the global economy. But the FDI statistics, important as they are, give no indication of the increasing diversity in the forms of international involvement, many of which do not involve ownership and equity relationships but are, rather, various forms of collaboration between legally independent firms in different countries. Figure 2.3 identifies two particularly important collaborative strategies: strategic alliances and international subcontracting. Strategic alliances between firms across national boundaries are nothing new in themselves (Kindleburger 1988). What is new is their current scale, their proliferation, their multi-lateral nature, and the fact that they have become central to the global strategies of many forms rather than peripheral to them. Many companies are forming not just single alliances but networks of alliances. The situation is increasingly polygamous rather than monogamous.

> Few companies have only a single alliance. Instead, they form a series of alliances, each with partners that have their own web of collaborative arrangements. Many companies are at the hub of what are often overlapping alliance networks which frequently include a number of fierce competitors.
>
> (*Business International* 1987:113–14)

Strategic alliances are especially prominent in certain economic sectors though very few sectors are totally untouched. But the structure and organization of such sectors as motor vehicles, telecommunications, aerospace, electronics and pharmaceuticals are being transformed by the proliferating spider's webs of collaborative ventures. Unfortunately, it is impossible to obtain a precise quantitative picture of the incidence of collaborative ventures across various industries.

Among the reasons put forward for the general upsurge in strategic collaborations are the following. First, advances in communications technology and in the world's communications infrastructure which have led to the globalization of the market-place, information, finance, manufacturing and technology; second, the escalation in the costs of R&D, product development, manufacturing facilities and equipment; third, the acceleration of technological innovation and the shortening of product lead times and life cycles. Other factors would encompass convergence of technologies in what were previously separate market segments; the rise of protectionist measures in many countries; the creation of vast new markets arising from government initiatives in deregulating financial, telecommunications and other markets; and for Western companies, the rise and global competitive threat of Japan (*Business International* 1987:i).

Collaborative ventures or competitive alliances between independent firms are not the only form of direct international involvement. A second clear development has been the emergence of much closer relationships–contractual relationships–between firms and their component suppliers. Conventionally, subcontracting, whether international or domestic, has involved a firm putting out an aspect of its operation to a specialist supplier whilst also engaging in manufacturing itself. In recent years, however, a rather different organizational form has also begun to develop. It is essentially, a vertically disaggregated network organization in which almost all functions other than those of central control and co-ordination are subcontracted to other firms but in which, as a rule, the final product is marketed under the parent company's brand name.

It is this kind of 'indirect' involvement by foreign firms which has been so very important in the manufacturing growth of most of the Asian growth economies. In a pioneering paper written almost twenty years ago, Hone (1974) argued that *the* major force in the development of export-based industrialization in the East and South East Asian economies was not the direct investment of foreign TNCs but the commercial subcontracting activities of the major Japanese, American and European buying and trading houses and retail chains. To these should be added the industrial subcontracting activities of the major manufacturing firms in a whole range of industries. Thus, even in those countries like South Korea, which have closely regulated the entry of foreign firms, the indirect influence of international subcontracting has been an immensely important factor. In the case of Korea, domestic firms of all sizes have developed on the basis of international subcontracting links. It is only very recently that the massive Korean *chaebol* have begun to market their products under their own brand names.

Figure 2.3 sets out the various orientations which these major types of foreign firm involvement may take. As far as the East and South East Asian region is concerned, the modern conventional wisdom has been that foreign firms are predominantly involved in export platform functions based upon production-cost locational advantages. Certainly that has been true of industries such as electronics and a number of other manufacturing assembly processes. But there is far more depth to foreign involvement than this. Market-oriented foreign investment has always been important in the region and is becoming increasingly so as the region's markets develop with accelerating speed. Historically, of course, the major motivation for foreign involvement in the region was the desire to exploit the region's richness and diversity in natural resources. Although more and more of the natural resource based industries have come under national state control, foreign TNCs remain extremely significant in these activities.

A final issue of significance in this brief discussion of global trends in transnational corporate activity relates to the internal tensions which exist betweeen globalization strategies on the one hand and localization strategies on the other. International firms are increasingly finding themselves trapped between two apparently counter-poised forces. One force is the pressure to integrate the firm's operations on a global basis. The other force is the pressure to respond to national or local differences and to tailor or customize activities to fit such variations. Some would argue that it is possible to categorize industries into two discrete types: global industries on the one hand and multidomestic or nationally-responsive industries on the other. Each has very different attributes. One conventional wisdom is that more and more industries are becoming transformed into global industries in which functional integration occurs across national boundaries in terms of R & D, production and marketing activities. It is arguable as to whether whole industries can be so simply categorized. But, even if this is so, it does not necessarily follow that all firms in a particular industry will follow the same strategy. Some of the recent work on competitive strategy strongly rejects the polarization of strategic choice between global and local orientations. In a world of

> a much more complex set of environmental forces…firms must respond simultaneously to diverse and often conflicting strategic needs…. In the emerging international environment …there are fewer and fewer examples of industries that are pure global, textbook multinational, or classic international. Instead, more and more businesses are being driven by *simultaneous* demands for global efficiency, national responsiveness and worldwide learning.
>
> (Bartlett and Ghoshal 1987:10, 12)

Each of these various dimensions of transnational corporate activity has important implications for the growth economies of Asia. However, these implications are becoming increasingly complex as not only foreign TNCs pursue more diversified modes of international involvement and attempt to resolve the globalization/localization problem, but also as East and South East Asian firms themselves become transnational in their activities. Inter-firm competition at the global scale is both intensifying and becoming increasingly complex. At the same time, it is more and more deeply imbricated with the politico-economic strategies of national governments.

DEVELOPMENTS IN THE INTERNATIONAL ECONOMIC STRATEGIES OF THE WESTERN INDUSTRIALIZED COUNTRIES

All governments intervene in the working of their economies for a whole variety of reasons. As Chalmers Johnson (1982:17, 18) points out, 'The issue is not one of state intervention in the economy…. The question is how the government intervenes and for what purpose'. Johnson draws a useful distinction between two models of government economic intervention: first, the developmental or plan-rational states such as Japan, or the East Asian NICs; and second, the regulatory or market-rational states, such as the United States. He describes the differences between these two models as follows:

> A regulatory, or market-rational, state concerns itself with the forms and procedures–the rules, if you will–of economic competition, but it does not concern itself with substantive

> matters. For example, the United States government has many regulations concerning the antitrust implications of the size of firms, but it does not concern itself with what industries ought to exist and what industries are no longer needed. The developmental, or plan-rational, state, by contrast, has as its dominant feature precisely the setting of such substantive social and economic goals…. In the plan-rational state, the government will give greatest precedence to industrial policy, that is, to a concern with the structure of domestic industry and with promoting the structure that enhances the nation's international competitiveness. The very existence of an industrial policy implies a strategic, or goal-oriented, approach to the economy. On the other hand, the market-rational state usually will not even have an industrial policy (or, at any rate, will not recognize it as such). Instead, both its domestic and foreign economic policy, including its trading policy, will stress rules and reciprocal concessions (although perhaps influenced by some goals that are not industrially specific, goals such as price stability or full employment).
>
> (Johnson 1982:19–20)

Many of the current politico-economic disputes in the world economy, particularly between the Asian growth economies on the one hand and the western industrialized nations on the other, are at least partly the reflection of a clash between these two different modes of government involvement. Here I want to focus on just two aspects of government policy which are especially relevant to the theme of this chapter: trade policies and foreign investment policies.

The 'New Protectionism': The Trend Towards 'Managed Trade' and the Strengthening of Regional Economic Blocs

Within the auspices of GATT, the principle underlying international trade after World War II was multilateral agreement and the application of the 'most favoured nation' principle. Although GATT has clauses which permit deviations from these basic principles the circumstances are clearly defined and GATT is the ultimate arbiter of disputes. Until the mid-1970s, a major feature of the international trading environment of the post-war years had been the progressive liberalization of trade and, especially, the decline in tariff barriers through the various GATT rounds. For the industrialized countries, the average tariff on manufactured goods fell from 40 per cent in 1947 to between 6 and 8 per in 1973. As a result of the Tokyo round of GATT, tariffs on manufactured goods averaged 6 per cent in the European Community, 5.4 per cent in Japan and 4.9 per cent in the United States by early 1980s. In fact, Japan's tariff cuts went further than this (World Bank 1987).

However, since 1974 there has been a clear and marked increase in the use of non-tariff barriers (NTBs). Bhagwati (1988) distinguishes between two types of NTB. The first of these are the 'high track' restraints which bypass the GATT rule of law. These are the 'visibly and politically negotiated' restraints negotiated by trading partners: the VERs and OMAs which have proliferated in a variety of industries including textiles and clothing, automobiles, consumer electronics, steel, footwear, machine tools, etc. The OECD estimates that such NTBs today affect one-quarter of all industrialized country imports. Between 1973 and 1983, the proportion of world automobile trade covered by such restrictions increased from less than 1 per cent to almost 50 per cent. A recent study by Kostecki (1987) identified 113 major 'voluntary export restraint' agreements. These figures exclude the most comprehensive case, the Multi-Fibre Arrangement. Of the 113 cases, almost 90 per cent protected the EEC, United States and Canadian markets. Almost two-thirds of the arrangements involved exports from Asia, primarily Japan and South Korea. Overall, Kostecki estimated that some 12 per cent of world non-fuel trade in the mid-1980s was covered by export-restraint arrangements. A third estimate by the World Bank showed that 16 per cent of industrial countries' imports from other industrialized countries and 21 per cent of imports from developing countries were subject to 'hard core' NTBs in 1986 compared with 13 per cent and 19 per cent respectively in 1981.

The second of Bhagwati's categories comprises 'low track' restraints which 'capture' and 'pervert' GATT rules. Such measures include anti-dumping provisions and countervailing duties. These play 'legitimate roles in a free trade regime…but not if they are captured and misused as protectionist instruments' (Bhagwati 1988:48). There has been a particular surge in anti-dumping measures implemented by the United States, European Community, Canada and Australia in particular. In 1980, the United States initiated twenty-two anti-dumping actions; in 1985 the number was sixty-five. The comparable figures for the European Community for the same years were twenty-five and forty-two.

Such protectionist measures are being set within a more general structure of trade legislation being put in place by individual countries (and groups of countries). The most significant example is the new trade legislation in the United States, viz. the 1988 Omnibus Trade and Competitiveness Act, what Bhagwati calls the 'ominous' trade and competitiveness act. This act elevates the principle of unilateralism over multilateralism and incorporates a 'crowbar' in the 'Super 301' clause which aims to achieve reciprocal access to what the United States defines as unfairly restricted markets. Significantly, this clause is directed to entire countries not individual sectors. In its first application in May 1989, three countries–Japan, India and Brazil–were named as 'priority countries'; other were 'warned' that they were being watched. In a related set of measures, the United States has instigated a 'Structural Impediments Initiative' in the attempt to open up what are seen to be structural restrictions on access to the Japanese market. Many, though by no means all, of both the high track and low track restraints have been directed at the growth economies of Asia. As such they imply some very serious problems of future market access.

A second major development of great significance is the strengthening of regional economic groupings in the West: notably the completion of the single European market in 1992 and the United States-Canada Free Trade Agreement.

In terms of the changing global competitive environment, one of the biggest developments facing both national governments and business enterprises is undoubtedly the completion of a single European market. This is supposed to occur after 31 December 1992 when, it is planned, all remaining internal barriers within the European Community will have been removed. The stimulus to complete the integration of the EEC was, undoubtedly, the fear that Europe was losing out in the global competitive stakes and that the continuing fragmentation of the community was a major source of competitive weakness both for European firms and for member states. In some respects, whether or not immediate integration actually happens is less significant than the fact that the Single European Act has set in motion a whole chain of developments, not the least being the urgent evaluation of competitive strategies by firms in all industries. As Michael Callingaert (1988:37–8) observes in a very perceptive view from the outside, '1992 is a process not an event…. The process will continue beyond 1992. Indeed, it is unlikely that a specific point will be identifiable at which the internal market becomes "complete"'.

From the perspective of Asian growth economies, the key issue is not so much the removal of internal barriers *per se* but rather the fact that the removal of such barriers will be set within a single external Community boundary. For firms not established in Europe but anxious to maintain or achieve market access, the overriding concern is the possible emergence of a fortress Europe. Certainly, the various national bi-lateral trade agreements will be replaced by a single Community arrangement. These will not only be industry- or product-specific. They will be far more contentious in some sectors than in others. At present, most of the controversy surrounds those industries in which Japanese market penetration is very high (automobiles, electronics). In so far as, in general the direct Japanese presence in Europe is still very small, it seems inevitable that the level of Japanese FDI in Europe will grow substantially and possibly take on more diverse forms than hitherto. There are signs, too of increasing direct investment in Europe by South Korea and Taiwanese firms, particularly in electronics.

A further complication has arisen with the remarkably rapid opening up of the Eastern European economies following the political changes of 1989/1990. East Germany has already been united with West Germany to form the biggest European economy. The former Soviet satellites of Czechoslovakia, Hungary and Poland are seeking to incorporate market forces and to attract foreign investment. For the East Asian NICs in particular an important question is whether at least some labour-intensive manufacturing activity initiated by United States and European firms may be diverted to Eastern Europe.

The late 1980s also saw a strengthening of a North American regional trading bloc. The Canada-United States Free Trade Agreement was signed in 1988. Its objective is to remove bi-lateral tariffs between the two countries over a ten-year period and to remove other trade barriers. In 1990, a further dimension was added to the United States' recent conversion to policies of regional economic integration with the announcement of the start of negotiations with Mexico on a possible free trade agreement between the two countries. Further, but more tentatively, President Bush has suggested that a longer-term objective could be the incorporation of the whole of Latin America into an Americas free trade area stretching from Anchorage in Alaska to Tierra del Fuego.

Variations in Policy Towards Foreign Inward Investment

Generally speaking, the developed market economies (with some exceptions) have adopted a liberal attitude towards FDI, a reflection of the fact that they are the major source countries. There are, of course, exceptions to such a generalization: France, Italy, Canada and Australia have operated restrictive inward investment policies. During the 1980s, however, substantial changes occurred. Restrictive policies eased in Canada, Australia and France. Conversely, however, attitudes in the United States towards the massive upsurge in inward investment hardened substantially, even though, so far, there have been no major policy shifts. But there is now intense debate, and a good deal of acrimony, about the alleged foreign takeover of the US (see, for example, Tolchin and Tolchin 1988; Rohatyn 1989).

Within the complex of possible policy measures adopted by countries towards inward investment, I would like to draw attention to two which are increasingly pervasive but somewhat contradictory. The first is the set of policies which can be bundled together under the heading of performance requirements. In the past, attempts to impose such requirements on foreign firms were predominantly in developing countries; more recently they have become increasingly common in developed countries. Three types of requirement have become most apparent: first, an insistence on a minimum level of exports from the host country plant; second, the requirement that a specified proportion of a plant's inputs should be sourced locally. This local content stipulation has become especially common in assembly industries such as automobiles and electronics, particularly in Europe, and is the focus of a great deal of controversy both between national governments and private investors and also between national government themselves. Third, there is a requirement relating to technology transfer, including the attempts to persuade firms to set up R & D facilities in the host country.

The second set of policies towards FDI runs somewhat counter to the essentially restrictive nature of performance requirements: the competitive bidding which takes place between nations (and within nations) for internationally mobile investment. Again, this is not a new development. But there is little doubt that it has intensified very markedly indeed. One result of intensified competition for internationally mobile investment has been both a general escalation of incentive levels and also efforts to 'differentiate' the national offering through a whole battery of financial and non-financial incentives and through aggressive promotional activity. The problem is, of course, that the upward escalation of incentives may not actually increase a country's share of the investment market if its competitors behave likewise.

CONCLUSION

The aim of this chapter has been to provide a brief overview of the changing global context in which the Asian growth economies have developed and currently operate. It is a complex and volatile environment. In particular, the circumstances of the 1990s are very different from those of the 1960s and early 1970s when the Asian growth economies emerged very rapidly as major world producers and exporters of manufactures. Apart from describing the broad pattern of global trends in production and trade, this chapter has concentrated on two major global actors–TNCs and nation-states–whose changing strategies are of great significance for the future growth of the Asian economies.

The intensification of inter-corporate competition at a global scale, together with the introduction and development of new flexible production technologies, mean that the role of the Asian economies in TNCs' internal divisions of labour may well change. At the same time, the marked increase in the propensity of many Western governments to espouse 'managed' trade at the expense of multilateral agreements within the GATT poses increasingly serious questions of continued market access for Asian producers which are highly dependent on Western, and especially North American, markets. The huge disagreements in the Uruguay Round are a clear indicator of this problem which may well be intensified by the strengthening of regional economic blocs, not only in an enlarging European Community but also in North America. The United States President's recent call for a free trade area throughout the Americas, from the southern tip of South America to Alaska, would have very serious consequences for the Asian economies. However, the precise impact of such external developments will depend very much on the specific internal circumstances of individual Asian economies.

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3

WHAT'S IN IT FOR US? IMAGES OF PACIFIC ASIAN DEVELOPMENT

Dean Forbes

The high hopes for the Pacific Asian region that followed decolonization and the end of the Second World War began to falter during the 1960s and 1970s. However, by the mid-1980s a resurgent optimism had brought increasing acceptance of a new image of Pacific Asia. At the core is the view that the region represents a unique demonstration of the transition from poverty to relative affluence, largely attributable to booming export-driven economic growth. It corresponds with the re-emergence of the expectation that the West stands to derive windfall benefits from the changes taking place; hence the title of the chapter…'What's in it for us?'.

Westerners have consistently fashioned views of Asia which represent what they want to exist, rather than what actually does. While not wishing to decry the obvious pace of transformation within the region, the more inflated accounts need to be challenged by reflecting on the unevenness and long-term sustainability of development. 'What's in it for us?' is just a valid a question from the residents of the region–are they sharing in the apparent benefits? Addressing these issues contributes to the construction of a more complex, but essentially more realistic and balanced, image for the region. It has important ethical implications in so far as it affects the approach which scholars take to the countries of Pacific Asia.

This chapter considers the changing distribution, and juxtaposition, of economic growth and poverty in Pacific Asia. I begin by noting the generally pessimistic portrait of Pacific Asian prospects which emerged in the post-war period. A review of the image of exceptionally successful development that has been created for Pacific Asia in the last decade or so follows. I then turn to data on economic development and to issues affecting civil society, especially poverty, which illustrate the less readily quantifiable down-side of Asian development. Finally, I examine the sustainability of Pacific Asian development in a global economy dividing into major trading blocs, before concluding with a comment on the implications of images for the future of the region.

LANGUAGE, TEXT AND IMAGE

The metaphor of 'image' is used to organize the arguments which follow. Images are constructed and modified in many ways. Television was particularly important during the Viet Nam War (see Klein 1990), whereas photography has a longer history of shaping perceptions of the world around us (Sontag 1979). Geertz has observed, with regard to anthropology, that some take a negative view of the social scientists' use of reflective methods, believing that:

> concentrating our gaze on the ways in which knowledge claims are advanced undermines our capacity to take any of those claims seriously. Somehow, attention to such matters as imagery, metaphor, phraseology, or voice is supposed to lead to a corrosive relativism in which everything is but a more or less clever expression of opinion.
>
> (Geertz 1988:2)

Like Geertz, I reject this notion, submitting that critical reflection is as essential a part of furthering our understanding of Pacific Asia as the fieldwork that is common to the traditional study of anthropology and geography.

With the exception of the occasional violent interlude, such as the Viet Nam war or the Tiananmen incident, current images of Pacific Asia owe relatively little to visual media, notably television, film and photography. Newpapers, magazines and books provide the bulk of our information on the region. We read about the growth economies of Asia and their impact on global manufacturing, financial networks and real estate markets. For most of us, literature reinforces and gives a larger subjective meaning to the rather neutral exposure we have to Asians themselves or their consumer products. It is text and language that gives technical and emotional coherence to the emergence of Pacific Asia. Therefore it is a selection of texts on Pacific Asian development that is used to illustrate the argument.

POST-WAR ASIAN DRAMA

The middle of the twentieth century was a watershed for Asia. Independence struggles and Communist revolutions became increasingly successful. A chaotic economic and political order was further stimulated by the flourishing new ideas associated with the decolonization of the post-war world. The political map of Pacific Asia was transformed. Furthermore, the success of the Marshall Plan in Europe encouraged governments in the richer countries to develop aid programmes for poorer nations. The United Nations declared the 1960s to be the 'decade of development'. However, it was not long before the complexity of the problems of development began to be realized.

Gunnar Myrdal's (1968) *Asian Drama* encapsulated the feelings of the time. It was begun in 1957 in a spirit of hope about the possibilities inherent in a rational, planned approach to underdevelopment. By the time it was completed eleven years later it had turned into a sombre set of volumes, fully cognizant of the problems to be faced and the limits to existing knowledge about how to make much headway against the huge problems facing poor, South Asian countries. Myrdal took an institutionalist approach to development, in which economics is contextualized rather than imagined to stand above politics, culture and society. Based on exhaustive analysis he wrote that he

> could sense [in South Asia] a fateful constellation of explosive potentialities for extremely rapid change and stubbornly formidable external difficulties and internal obstacles and inhibitions to change. One cannot escape feeling that what one is observing is precisely the unfolding of a drama in the classic sense…. Wrapped up in the dramatic conception of life of these nations is also the recognition…that the outcome is anything but certain.
>
> (Myrdal 1968:35)

Myrdal's dramatic imagery had its limits. While in the classic conception of drama the outcome is predetermined, the Asian drama was unfolding. History was not predetermined but was 'within the power of man (sic) to shape…and the drama thus conceived is not necessarily tragedy' (Myrdal 1968:35). The image created for the region had an untapped potential but faced formidable obstacles. Myrdal clearly saw the transformation of the region as an historical challenge.

NEW IMAGES OF PACIFIC ASIA

> Thanks to Californian gold and the tireless energy of the Yankees, both coasts of the Pacific Ocean will soon be as populous, as open to trade and as industrialised as the coast from Boston to New Orleans is now. And then the Pacific Ocean will have the same role as the Atlantic has now and the Mediterranean had in antiquity and in the Middle Ages–that of the great water highway of world commerce; and the Atlantic will decline to the status of an inland sea, like the Mediterranean nowadays.
>
> (Marx and Engels 1850 (1978:266))

Marx and Engels demonstrated remarkable prescience when they anticipated the future role of the Pacific Ocean in world development. Echoing them, John Hay, the American Secretary of State at the turn of the century, was also reported to have said, 'The Mediterranean is the ocean of the past, the Atlantic the ocean of the present, the Pacific the ocean of the future' (cited in Naisbitt and Aburdene 1990:179). Yet it took another 130 years after Marx and Engels made their claim before the idea really caught on; now it crops up *ad nauseam.*

Perceptions of the development experience of Pacific Asia changed significantly during the 1980s and seem set to continue into the 1990s. The style of language used to describe Asian economic growth increasingly oozes a distinctive enthusiasm symptomatic of the new mood of optimism. It is now common to hear that the 'New Industrializing Economies' represent an 'economic miracle' which is heralding the 'north-east Asian ascendancy'. The 'Pacific century' is about to commence, realizing the 'Pacific's destiny'. The 'four tigers' or the 'four dragons' are the evocative terms used for South Korea, Taiwan, Hong Kong and Singapore. The region '…economically and industrially is gearing up to dominate the planet in the twenty-first century' (Smith *et al.* 1985:1). The image being constructed of Pacific Asia highlights its aggression, its virility, and economic success. The image-building process can be illustrated by looking at accounts of change within the region.

Some of those which are aimed at the popular market, are not noted for their understatement of Pacific Asia's prospects, and how these will benefit the West. *Megatrends 2000* is a potboiler of a book purporting to forecast the ten most important trends affecting the world in the 1990s. The rise of the Pacific Rim is identified as being one of these. The region is described as experiencing

> the fastest period of economic expansion in history, growing at five times the growth rate during the Industrial Revolution… South Korea, Taiwan, Singapore, and Hong Kong have revolutionized the theory of economic development by showing the world how to skip over much of the industrialization phase and plunge right into the information economy.
>
> (Naisbitt and Aburdene 1990:179, 183)

South Korea is singled out for special attention as one of the most balanced, yet aggressive, economies among the 'four tigers'.

Megatrends 2000 is unashamedly populist. The authors have exaggerated for effect, aiming to maximize the sales of their books. While this kind of colourful futurist speculation—'the shock of the new'—undoubtedly has a role in image-building, it is not alone. Scholarly and pseudo-scholarly accounts contribute as well. The scholarly paradigm, or set of taken-for-granted assumptions, upon which each successive study of Asian development is based is also an image of sorts.

The literature emanating from the World Bank and Asian Development Bank also illustrates the acceptance by reputable financial research institutions of the new image of Pacific Asia. A recent Asian Development Bank report opens with the upbeat comment that

> developing Asia continued to outperform other regions of the world by a healthy margin…as a whole [it] is well placed to meet the challenges of the 1990s.
>
> (Asian Development Bank 1990:1)

The World Bank's 1990 report forecasts East Asia's real GDP will grow at 6.6 per cent per annum, and real GDP per capita at 5.1 per cent per annum, in the period from 1989–2000. These forecast growth rates are higher than for any other major region of the world (World Bank 1990:16). Although it needs to be remembered that both these agencies are in the business of selling money, and hence stand to benefit from expectations of strong growth within the region, their forecasts of economic growth are remarkably optimistic.

In addition to books, periodicals and business guides have also played a key role in articulating interest in the region. The standard bearer, *The Far Eastern Economic Review,* stoically pursues its own course, relishing the growth in importance of Pacific Asia, but not shying away from corruption and mismanagement. But the bandwagon effect has resulted in the proliferation of a large number of new business-related publishing ventures dealing with technology, communications, foreign investment guidelines, business travel guides, who's who, corporate directories and so on. Numerous new publications of this type are available for China. At the other end of the spectrum, they are only beginning to appear on Viet Nam. Scholarly journals, however, remain relatively untouched by the hype which surrounds recent trends, except in one important respect. The growth of periodicals devoted to contemporary change in Pacific Asia, such as *Asian Pacific Economic Literature* (Australia), *The Contemporary Pacific* (United States), or *The Pacific Review* (United Kingdom), attests to the growing academic interest in the region.

The characteristics of Pacific Asian countries most applauded in *Megatrends 2000,* and other accounts like it, are manifestations of economic dynamism. A foundation is market forces and a set of economic policies which preserve their freeplay, socializing the costs of development whilst privatizing the benefits. This 'odd cocktail' of a corporate state committed to a degree of central economic planning and 'rampant free market competition' (Smith *et al.* 1985:3) defies the textbooks but is acclaimed for its success.

Backing up macro-economic policy is individual discipline and motivation manifest in the level of personal savings, the hours of work and appropriately optimistic outlooks; and finally there is the commitment to a 'high-tech' industrial future and the further rise of the information economy. There is no argument that these values are important among the entrepreneurial middle classes throughout Asia. Indeed, personal motivation and management books dominate airport bookshops in the major international cities to an even greater extent than in other parts of the world. But there is no mention of traditional values of family or reciprocity, or any of the other values that we were once told burdened the peoples of Asia. Nor is there recognition that many are questioning the growth process, from both secular and spiritual viewpoints.

Underpinning changing images of the region are new views about personal values. Segments of Asian society are regarded as more capitalistic in their attitudes to business than the capitalists of North America, or the German burghers immortalized by Max Weber (1930). The Overseas Chinese are an identifiable group whose entrepreneurial skills have served them particularly well. Redding

(1990) attributes their skills to the blend of insecurity, personalized relationships and a patrimonial management style. While these characteristics may not provide the basis for the development of modern Trans-National Corporations, he argues they are a common factor in numerous Chinese owned enterprises in Hong Kong, Singapore, Taiwan and Indonesia.

Pacific Asia is portrayed as an economic rival fast overtaking the established developed countries. Invariably the West is thereby encouraged to exploit the opportunities which stem from it. If it does not, it risks falling behind. The corollary is that trade and competition should replace aid and co-operation as the dominant rationale of economic relationships (see Forbes 1988:182–94).

THE CHINESE EXPERIENCE

The Asian nation whose historical and contemporary image most frequently invokes expectations of the bountiful profits to be derived from Asia is China. These views were muted during the Cultural Revolution and its aftermath, but resurfaced with the rapprochement between the USA and China in the early 1970s. The death of Mao in 1976, followed by the announcement of rural reforms in 1978, the ‘open-door’ strategy in 1980, and urban-industrial reforms in 1984, fuelled the flames. Although there has been a dramatic reduction in foreign commitments to China since the Tiananmen incident in 1989, western (including Japanese) interest in China is far from abandoned.

As Mackerras (1989) has demonstrated in his perceptive account of foreign interpretations of China, westerners have a long history of constructing distorted images (on India see Embree 1989). Western perceptions of change in Asia, and the potential economic benefits to be derived from them, have often been exaggerated. The disappointments have been correspondingly large. A recent example is contained in a study by Mann (1989) of the ‘Beijing Jeep’, a joint venture between American Motors and the Beijing Automotive Works, set up in the heady atmosphere that followed Nixon’s visit to China in 1972. Mann documents the misunderstandings that plagued relations between the Americans and Chinese and the steady deterioration of connections between the two partners. Misunderstandings, of course, cut both ways. The perceptive Chinese new wave film titled *The Black Cannon Incident* provides a Chinese perspective on some of the communications problems they have in dealing with foreigners.

Concerns over the manner in which Hong Kong will be incorporated into China escalated after the Tiananmen incident, accelerating the exodus of people and capital to destinations throughout the Pacific Basin. It has also generated a stream of excited literature (as well as some excellent scholarly accounts) about the likely benefits of the exodus to western countries. De Mont and Fennell's (1989) *Hong Kong Money* is a contemporary example of the genre of literature seeking to portray possible western benefits from China. The book focuses on the links between Hong Kong and Canada. They estimate that around 700,000 Chinese, principally from Hong Kong, now live in Canada, while Canada issued 22,000 immigrant visas to Hong Kong citizens in 1987 alone. Their account focuses on a handful of billionaires who have relocated family members in Canada, and are now investing in prime real estate and building development.

While there is some attempt to note the problems this is creating in places like Toronto and Vancouver, the thrust of the book is highly supportive of the 'flesh-and-blood bridge' between Canada and Hong Kong. Not only has it stimulated investment in Canada, the connections that the Hong Kong Chinese maintain with China are seen as potentially the most important benefit to be derived from the immigration, a point also made by Naisbitt and Aburdene (1990:185). These authors leave no doubt that, like the governments of Alberta, Quebec and British Columbia, they believe 'that Hong Kong immigration is the key to long-term economic growth' (De Mont and Fennell 1989:20). The image created of China is both of a political ogre and a potentially profitable economic partner.

QUESTIONING IMAGES

> 'Truth' is linked in a circular relation with systems of power which produce and sustain it, and to effects of power which it induces and which extend it.
>
> (Foucault 1980:133)

The sociology of knowledge should cause us, more than it apparently does, to question critically our views about progress within Pacific Asia. Representing Pacific Asia, collectively or country-by-country, as a region of economic take-off is likely to benefit many powerful groups. Who are they, and how do they stand to benefit?

Governments have an interest in shaping the image of nations, whether to promote trading interests, facilitate long-term regime stability or deflect internal and external criticism. South Korea used its position as host of the Olympic Games in 1988 to promote its modernist image. Beijing did the same, though far less successfully, when it hosted the 1990 Asian Games. Regimes have a vested interest in associating themselves with the economic changes taking place in Pacific Asia. It is good for domestic morale.

It is not just the domestic forces which create and reinforce the image of modernity. Major international aid agencies, free market economists and other ideologists, see in the experience of Pacific Asia a vindication of their models of economic development. Prescriptions based on ubiquitous market forces—'getting the prices right'—or on export orientation are routinely put forward as a panacea for every economic problem. Even tiny Pacific island states of a few thousand people are exhorted to follow the Hong Kong model. The terrain remains contested, of course, by those who stress the key role the state has played in most Asian countries, or by 'exceptionalists'—post-modernists in the language of the day—who believe each country has its own unique set of circumstances to confront. Basically, then, ideologues are seeking self-justification and a confirmation that we now have all the answers, and only lack the will to implement them.

There are others for whom the growth of Pacific Asia is a threat which might be manipulated for economic benefit. If Asia is perceived as a poor region then ethics, together with the weight of world opinion, compel rich countries to provide assistance. Yet most western economies are reeling under current account deficits brought on by the market appeal of low-priced Asian imports and the difficulties of sustaining viable export industries in a high-wage economy. If Pacific Asia is perceived as an area of economic growth, then there are far fewer constraints to economic exploitation. Education services can be marketed ruthlessly. Immigration programmes can pick the very best of the skilled labour there is on offer, such as doctors and nurses, computer programmers and engineers. Business migration schemes can facilitate the geographic transfer of capital. Foreign investment can be ruthlessly negotiated.

IMAGINED DEVELOPMENT

But is the development of Pacific Asia real, or is it imagined? The pattern of socio-economic change within the region illustrates a different, somewhat darker, and more complex side of the picture. Examining it allows us to start reconstructing an image of Asia that is less one-dimensional, a crucial contribution to restoring a more balanced view of the interrelationships between Pacific Asia and the West. There are some notable elements missing from most of the accounts cited earlier. These include serious matters such as poverty, or the emergence of civil society, or the long-term sustainability of current development trends.

Yet the new images of Pacific Asian economic dynamism are by no means without substance. The raw statistics of economic growth, by themselves, are impressive enough to fuel the construction of a new image of economic growth in the region. Average annual growth rates of Gross Domestic Product (or Net Material Product where applicable) have been extraordinarily good. Through the 1970s and 1980s the Asian New Industrializating Economies (NIEs) grew at close to 7 per cent per annum or better, while most of the other large economies of the region, such as China, Indonesia, Malaysia and Thailand managed average annual rates of 5 per cent or more (Table 3.1). No one could dispute the magnitude of these achievements, although the interpretation of their symbolic significance is another matter altogether.

Not all analyses of Pacific Asian economies accept that these statistics mean these economies are structurally sound. Bello and Rosenfeld's (1990) *Dragons in Distress* argues that Pacific Asia's 'miracle

Table 3.1 Annual average growth rate of GDP[1]

	1971–80	*1981–89*	*1990*[4]	*1991*[4]
Hong Kong	9.5	7.2	3.0	5.5
Singapore	9.0	6.9	7.5	7.7
South Korea	8.7	9.3	6.3	6.7
Taiwan	9.7	8.1	7.2	7.4
China	6.5	9.4	5.5	6.5
Indonesia	7.9	5.2	6.4	6.5
Laos	—	4.8[2]	5.2	5.5
Malaysia	8.0	5.4	7.0	7.5
Philippines	6.2	1.7	5.0	6.2
Thailand	9.9	7.1	9.9	9.2
Vietnam	—	5.7[3]	8.1	8.1

Source: Asian Development Bank (1990)

Notes:
1 GDP in constant market prices; prior to 1981, China data is for net material product.
2 Refers to period 1982–89.
3 Refers to period 1984–89.
4 Projections.

economies' are facing a crisis as they lose their competitive edge in the production of cheap exports. Kunio (1988) calls South East Asian capitalism 'ersatz' because of its technological dependence, its tendency to 'seek rent' rather than invest in production, and its inability to absorb resident Chinese into the social order. Both accounts focus on the structure of production in the region.

POVERTY AND HUMAN DEVELOPMENT

Who is actually better off as a result of the changes? What is the extent of regional variation in the benefits of Asia growth? How much poverty remains in the region? From a geographer's perspective these questions invite answers at three distinct spatial scales: the profile of Pacific Asia as a whole; the distribution of rich and poor nations; and the distribution of poverty within nations.

In recent years the image of widespread poverty in Pacific Asia has been pushed to one side with undue haste. It is not that poverty and distributional issues are off the agenda altogether. International agencies, such as the United Nations Development Programme (1990) and the World Bank (1990), have 'rediscovered' poverty as a development issue. The latter notes that there were one billion people in 1985 living on less than US$370 per head, and that for many of the poor the 1980s was 'the lost decade'. However, it is made abundantly clear that Pacific Asia is not a concern, because 'The number of poor is expected to fall dramatically, and social indicators continue to improve' (World Bank 1990:iii–iv). The World Bank predicts that people in poverty in East Asia will decline from around 250 million in 1985, to 50 million in 2000.

Yet while opinion about the future of the region as a whole seems optimistic, it is more difficult to generalize confidently about the experience of the individual countries within the region. Data on distributional issues, such as poverty, are less reliable than on production, finance or demographic characteristics. It is particularly inadequate (or non-existent) for the poorest countries (Table 3.2).

The Asian Development Bank (ADB) estimates that in 1988 per capita GNP in Laos was US$180 and US$200 in Viet Nam (the World Bank has no estimates for these countries), US$330 in China, US$430 in Indonesia and US$630 in the Philippines. No comparable data is available for Cambodia or North Korea. There is little doubt that the countries of Indo-China are the most impoverished within the region, but all of the countries mentioned above (except the

Table 3.2 Per capita GNP, growth rates and income distribution

	Per capita GNP (US$) 1988	*Growth rate per annum (%) 1981–89*	*Income share of lowest 40% 1975–86*
Hong Kong	9,230	5.7	16
Singapore	9,100	5.6	—
Taiwan	6,070	6.6	—
South Korea	3,530	8.6	17
Malaysia	1,870	2.7	11
Thailand	1,000	5.1	15
Philippines	630	–6.7	14
Indonesia	430	3.0	14
China	330	8.1	—
Viet Nam	200	3.7	—
Laos	180	2.0	—

Source: Asian Development Bank (1990); United Nations Development Programme (1990)

Philippines) are regarded as low-income economies by the World Bank, i.e. in the poorest category of countries.

Recognizing that income figures only tell part of the picture, the United Nations Development Programme (UNDP) has developed a Human Development Index (HDI), based on weighted measures of life expectancy at birth, adult literacy rates, and real per capita GDP, to compare levels of human development by country (Table 3.3). The New Industrializing Economies (NIEs) and Malaysia all have High levels of human development. China, Viet Nam, Laos and the ASEAN states fall in the Medium category, while Cambodia is the sole Pacific Asian country in the Low category. In general, the socialist countries perform better on the HDI than on income alone, reflecting the social provision and subsidization of goods and services in those countries.

If we delve deeper into the experience of selected countries we find that, despite the modern facade of much of Asia, there remains grinding poverty in both the rural and urban areas. Take Indonesia for instance. The proportion of people living in poverty has fallen from 33 per cent in 1984 to 22 per cent in 1987. This is a significant reduction in the space of three years. But in absolute terms, after more than two decades of New Order government some thirty-eight million Indonesians were living below the poverty line in 1987 (Table 3.4).

Table 3.3 UNDP human development index

	UNDP human development index	*Rank (highest 130 lowest 1)*	*High, medium or low*
Hong Kong	0.936	108	High
Singapore	0.899	96	High
South Korea	0.903	97	High
Malaysia	0.800	85	High
Thailand	0.783	78	Medium
China	0.716	66	Medium
Philippines	0.714	65	Medium
Viet Nam	0.608	56	Medium
Indonesia	0.591	54	Medium
Laos	0.506	46	Medium
Cambodia	0.471	40	Low

Source: United Nations Development Programme (1990)

Income distribution data is available for only a limited number of countries, but it shows that throughout most of Pacific Asia the bottom 40 per cent of the population receive between 11 per cent and 17 per cent of the total income generated: for comparison, in the OECD countries it ranges from 15 to 22 per cent (Table 3.2).

Moreover, there are regional concentrations of poverty. In the Indonesian example the eastern islands have a higher proportion of people living in poverty than the rest of the country. In Viet Nam, the north is worse off than the south. Every country in the region is conscious of the problems associated with regional concentrations of poverty. Moreover, considering the stage of development most of Pacific Asia outside the NIEs is experiencing regional poverty, and spatial inequalities will probably worsen before the situation starts to improve.

Continued rural-urban migration is maintaining high levels of urbanization. The urban population of East and South East Asia numbered 238 million in 1960. By 2000 it will amount to 669 million, and 2020 1.1 billion, or close to half the population of the region. In almost all countries a greater share of the rural than urban population is in poverty. In Indonesia 26 per cent of the urban population is below the poverty line, compared to 44 per cent of the rural population. In Malaysia the comparable figures are 13 per cent and 38 per

Table 3.4 People in poverty in Pacific Asia

	Year	*Households in poverty (%)*	*Poverty line (per household per year)*
Hong Kong	1966	18	HK$3,000
	1971	11	(1966 prices)
	1976	7	
Singapore	1966	37	S$200 per capita
	1975	29	(1970 prices)
	1980	18	
South Korea	1965	41	121,000 won
	1970	23	(1980 prices)
	1976	15	
	1980	10	
Taiwan	1964	55	NT$30,000
	1973	20	(constant)
Indonesia	1984	33	Rp 11,000 per month
	1987	22	(1984 prices)
Malaysia	1970	49	M$330 per capita
	1976	40	(1970 prices)
	1979	29	
	1984	18	
Philippines	1971	49	Peso 2,382
	1985	59	(1971 prices)
Thailand	1962–3	57	Baht 1,980 rural
	1968–9	39	Baht 1,960 urban
	1975–6	33	
	1981	24	

Source: Bautista (1990)

cent, and in the Philippines 50 per cent and 64 per cent (United Nations Development Programme 1990:158–9). Nevertheless, considering the rapid rate of growth of cities it seems likely that the urban poor will come to represent a much larger share of the total population living in poverty.

IMAGES FROM CIVIL SOCIETY

The statistically generated image of decreasing poverty is, of course, only part of the picture. It is off-set by feelings of unease about the style of development that is being articulated in many Asian countries. These kinds of views are not necessarily an ordered, technically rational perusal of available statistical data. Instead they represent the mood of societies where many are searching for more than higher and higher levels of consumerism.

The people most affected by the new images of Pacific Asian economic success live within the region. Many do not believe the new images are adequate. They are the ones who aspire to socially more equitable, politically more libertarian, culturally richer, and environmentally sustainable forms of development. They are intellectuals, development workers, students, environmentalists and politicians. They are symbols of the conscience of the societies in which they live.

Dissent in Indonesia

As an illustration, the late Soedjatmoko, a prominent and respected Indonesian intellectual, expressed a belief that we too readily accepted a glossy view of development. He has said we are all

> ill-prepared to deal with the swiftly changing, enormously complex, and increasingly competitive world of tomorrow…. Poverty still stalks this earth on a vast and unacceptable scale. Hundreds of millions remain in an intolerable state of degradation and despair…. The great remaining problem is how to release the latent energies of those whom Gandhi called 'the last, the least, the lowest and the lost'.
>
> (Soedjatmoko 1990:12)

He believed in the need for a 'humility of mind…we must learn to leave room for the unexpected'. While Soedjatmoko painted on a broad canvas, parallel sentiments are consistently expressed in Indonesia.

In Jakarta on the evening of 16 August 1990, the eve of independence celebrations, an open cultural forum was held at the Taman Ismail Marzuko (TIM). Its purpose was to articulate a 'cultural prayer'. To quote from a participant, Soetjipto Wirosardjono:

> Unlike the usual commemoration events for Independence Day, where people are expected to glorify patriotic past achievements and present unselfish performances, the young men and women performing and attending the cultural performance at TIM that night cried out about a gloomy social reality. Unemployment, the deteriorating environment, overcrowding of the island of Java and the future of an Indonesian population of more than 200 million, prevailing injustice, social gaps, ethnic and other social prejudices, conglomerates, lack of democracy and the gloomy hope for effective participation.
>
> (Wirosardjono 1990:4)

Despite the optimistic statistical picture, some of Indonesia's intellectuals believe there is still much searching to be done before they achieve what Bur Rasuanto, the Director of TIM, called a 'sustainable social conscience'.

Social harmony cannot be attained alongside injustice and inequality. Social inequalities, in turn, cannot be rectified when dissent is suppressed. It was the intention of the 'cultural prayer' to demonstrate popular concern with issues of social relevance. The government response was recorded in terms of statistics and policy statements.

The concerns expressed by Soedjatmoko, Soetjipto and others raise questions from within about the sustainability of long-term growth, not just in Indonesia, but across many of the countries of Pacific Asia. Can political stability, an essential ingredient of economic growth, be sustained in the presence of regional pockets of alienation and political dissatisfaction? At present these concerns are scarcely acknowledged by those with a vested interest in demonstrating the viability of global capitalism, or the ultimate superiority of the prevailing models of economic growth. The commitment to democracy which is a precondition for and to African countries has seldom been applied to Pacific Asia by western agencies.

TRADE BLOCS AND IMAGINED COMMUNITIES

Finally we need to turn from within to without. Earlier the question of whether Pacific Asia, or the Pacific Rim, has any real meaning was posed. Is Pacific Asia an 'imagined community', in the sense in which the term is used by Anderson (1983:15–16) in his study of nationalism? Or is it a construction of data gatherers, academics, and most recently, politicians?

The springboard for Asian economic growth, it is usually argued, has been macro-economic reform and the implementation of outward-looking, export-orientated strategies for economic development. Indices which have been compiled measuring inward and outward trade linkages suggest that Pacific basin economies are becoming more interdependent. That is, the proportion of overall trade, both imports and exports, between Pacific Basin countries is growing more quickly than trade with countries outside the region. The exception is Japan, which is in the process of expanding from a regional to a global power.

One of the most significant changes facing the global economy over the last few years, and quite likely through the 1990s, has been the formation of major new trading blocs. Not least of these is the planned economic integration of Europe. This has occurred in parallel with some other significant changes, including the political and economic disintegration of the USSR and Eastern Europe and with it the sharp division between capitalist and non-capitalist trading blocs. The Gulf War following the Iraqi invasion of Kuwait caused further disarray.

Japanese plans in the 1930s and 1940s for a Greater East Asia Co-Prosperity Sphere, not unexpectedly, fell through. Since the 1960s, though, the question of an Asian economic grouping has been posed in the different forums within the region. After a slow beginning the Association of South East Asian Nations (ASEAN) is now well established, but the idea of an Asian Pacific Economic Cooperation (APEC) grouping is the most recent proposal to gain support (Forbes 1989:33–4). It combines the six ASEAN countries with Australia, Canada, Japan, New Zealand, South Korea and the USA.

The second meeting of the group was held in Singapore in 1990. While there seems to have been something less than unanimity on trade matters, and ASEAN members are anxious to maintain the integrity of their own organization, a momentum has developed and the group is seeking ways of drawing in the 'three Chinas': China, Hong Kong and Taiwan. There is still a common intention not to 'bureaucratize' APEC, and ideal which may not survive forever.

APEC might be able to provide a framework for the shaping of a Pacific Asian economic community, but the formation of more substantive links can scarcely be affected. The problem remains that there are no other effective forums for discussing mutual socio-cultural, political or environmental problems. Yet without attention to these kinds of questions the further economic integration of the region is unlikely to be maximized.

Despite this, Pacific Asian communities, of a sort, seem to be emerging as a result of immigration, global commuting (e.g. between Hong Kong and Australia), improved communication and the accelerated mobility of capital. The overseas Chinese that have historically settled throughout South East Asia are the best illustration of a trans-national Pacific Asian community. Recent emigration from Hong Kong well multiply the impact of this group. Extensive Vietnamese emigration and resettlement in Australia and North America is gradually building up another community network, albeit one that remains largely isolated from Viet Nam. Yet it remains to be seen what kind of developmental impact these forms of communities will have within the region.

THE IMAGERY OF SUSTAINABLE DEVELOPMENT

The longer-term viability of manufactured images of dynamic Pacific Asian economic growth must be critically questioned. Global concerns such as international trade can be tackled through the promotion of organizations such as APEC. Means for tackling and resolving other problems, including environmental issues, are lagging. Of equal, if not greater importance, are the problems within countries. Civil society is beginning to re-form in much of Pacific Asia after decades of political repression. Political frustrations are being exposed over such concerns as poverty and the limits to growth. While it is premature to attempt definitive conclusions about long-term sustainability of Pacific Asian development, it is about time that we treated it as more problematical than we have.

The present imagery of the region also creates some serious ethical problems. Undoubtedly there are benefits which Pacific Asian countries can bestow upon the older industrialized core economies. But the latter's obligations to the countries of Pacific Asia outweigh them. We should not overlook the large numbers of poor within the region, although we can applaud the overall reduction in their numbers. Moreover, we need to have more understanding of relative poverty and its implications. As a result, development assistance programmes, despite their failings, should not simply be dismantled and the resources redistributed elsewhere. Global labour markets as much as ever need to take into account human resource deficiencies in the supplier countries.

Finally, research on Pacific Asia is booming, especially in Australia and North America, but elsewhere as well. The proliferation of new research centres in universities is one reflction of this, the establishment of new academic journals another. Yet some of this new interest is a transient response to the increased funds available for Pacific Asian research coinciding with static mainstream social and economic research funding. And some government and private research support is driven by expectations of short-term economic benefit. Are we therefore prematurely biasing the research agenda for Pacific Asia towards getting something out of their good economic fortune? If this is the case we risk sidelining established interests in the regionally-specific problems of Asian development.

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4

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON THE GEOGRAPHICAL PATTERN OF FOREIGN TRADE FLOWS IN PACIFIC ASIA WITH SPECIAL REFERENCE TO TAIWAN

Claes Alvstam

INTRODUCTION

Large-scale foreign direct investment (FDI) is a relatively recent phenomenon in the economic interaction between states. While physical trade flows still account for the dominant part of international commercial relations, the rapid growth of FDI during the last decade merits a more thorough theoretical treatment of its impact in the world economic system than has been the case up to now. This notion is particularly valid given the enormous volume of theoretical and empirical work within the field of foreign trade. In addition, when FDI is studied, it is often looked upon as an isolated phenomenon. The close interconnection between commodity and capital flows has seldom been addressed. An early exception was Vernon's (1966) product cycle model. Although Vernon himself later criticized others for taking his model too literally (Vernon 1979), it is clear that its basic assumptions regarding a natural sequence between foreign trade flows and locational shifts in manufacturing production can be verified. This is particularly important in the case of Pacific Asia, where trade-oriented FDI is a complement to, rather than a substitute for, international trade (Kojima 1978). A basic assumption behind this study is thus that the geographical pattern of commodity flows cannot be understood without an analysis of the spatial distribution of FDI and vice versa. Furthermore, as the development of FDI as a major element in the international economic system is a fairly recent phenomenon, there is a need to develop a generally accepted methodology for the study of international capital flows.

The purpose of this chapter is twofold. First, to describe and analyse the growing impact of FDI in the Pacific Asian region, with particular reference to Taiwan, and second, to discuss the methodological problems involved in theoretical and empirical studies on FDI, with particular reference to Pacific Asia as a whole.

One important reason for choosing Taiwan is that the state has very succussfully passed through a number of stages of industrialization and economic growth, and is viewed as a model for other states in the region, notably the members of ASEAN. During the 1950s and 1960s, Taiwan emerged as a host country for American and Japanese capital investment, but since 1987 it has become a major source of FDI for Pacific Asia, second only to Japan. Taiwan thus provides a good example of how the content, direction and country composition of flows of FDI change over time as a state industrializes.

FDI can be defined very generally as the cross-border transfer of managerial resources (Hara 1990). This is a catch-all term for the various resources of a company, mainly human and monetary capital. Since some of these are very difficult to quantify, FDI is commonly measured solely in terms of international capital transfers. However, as Peter Dicken points out in Chapter 2, FDI is only one aspect of the activities of international capital. With the increasing internationalization of what were originally domestic-oriented production systems, FDI has grown at a much higher rate than the initially dominating flows of capital related to licence agreements, sub-contracting and the like. In most cases, the country composition of exports corresponds closely to the geographical pattern of FDI. However, certain deviations occur and these can be explained in two ways. First, by the time-lag between commodity exports and FDI. Exports of goods often represent an earlier phase of economic interaction. When exports from one country to another have grown to a certain volume, the flow of commodities may be substituted for domestic production of the same goods in the receiving country through a transfer of capital. Second, a deviation between the geographical pattern of commodity and capital flows emanating from a country may occur when the consigning country implements different policies regarding imported goods compared to inward investment. A country may liberalize trade and investment by reducing the tariff and non-tariff barriers, while keeping more restrictive rules for inward FDI. In such a case, international economic interaction will be dominated by commodity rather than capital flows. On the other hand, a country may combine a restrictive import policy with an openness to inward FDI. Then domestic production will be attractive to foreign investment. In Pacific Asia, the countries in the northern part, notably Japan, the Republic of Korea and Taiwan represent the first case, while the countries in South East Asia, particularly Indonesia, Malaysia and Thailand, are good examples of the second. It is significant that the former countries are now net investors abroad, while the latter ones are net importers of foreign capital. This comparison demonstrates that FDI and foreign trade fulfil different purposes in the national economic policy of a country over time. Furthermore, investment decisions are much more centralized than the decisions to export, and accordingly, there are fewer but larger capital flows than foreign trade flows. However, in Pacific Asia there is generally a higher level of centralization of foreign trade decisions than is the case in North America and Western Europe.

METHODOLOGICAL CONSIDERATIONS

Despite the increase of research into FDI on national economies, there is still confusion over how to measure it. The huge variations that exist between different sources result mainly from the use of different methods of measurement. This notion is particularly relevant in Pacific Asia, where one can find astonishingly varied descriptions of the same phenomenon. In Figure 4.1 the most frequently used measures of FDI are shown. Usually outward FDI, as seen from the home country, is measured *ex ante* through applications to export capital (1) and approvals from the authorized body in the home country to move capital abroad (2). The advantage of using this primary source is that it gives a detailed picture of the geographical distribution of the proposed and approved investment, as well as an exact description of the type of business involved. The measurement can either be the number or the capital value of applications/approvals. The capital value of the transfer is generally a better measure as long as one keeps in mind the possibility that one very large FDI project can seriously distort the entire picture. In addition, FDI can be measured in terms of registered capital or the total investment. Using the amount of registered capital is safer, but this measure only reflects a small fraction of the total investment. On the other hand it is almost impossible to estimate the value of the total investment, as this is likely to be the result of transfers from different

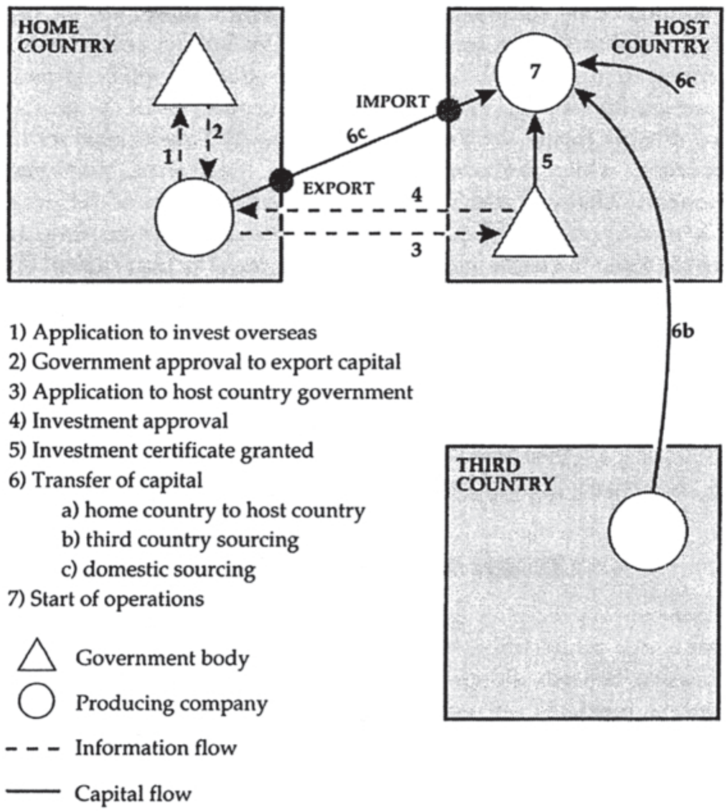

Figure 4.1 The most frequently used measures of FDI

sources over a period of several years. My conclusion after adapting various methods in empirical studies of Pacific Asian countries is that all measures are useful and act as reference points for each other. However, the measuring of FDI solely through applications or authorized approvals in the home country gives a biased picture of the capital flows. First, it exaggerates the importance of FDI, as there are a great number of approved applications that are never realized. Second, it may grossly underestimate the number or capital value of FDI, as a large number of FDI projects may go through other channels. The significance of this latter objection varies from country to country depending on the extent to which capital transfers are regulated. Third, a long time may pass between an approved application to export capital from the home country and the actual transfer. This is mainly because of the time needed by the host country to handle the application, and the time required for preparing the operation. A normal time-lag between the approvement of FDI (2), and the subsequent export of capital in order to start operations (6), seems in Pacific Asia to be between two and five years.

A further measure of FDI flows as seen from the home country is the *ex post* value of the real capital flows, or the balance outstanding of direct investment abroad, as extracted from the balance of payments statistics in the national accounts (6a). This measure usually compares unfavourably with the *ex ante* data (1, 2). It is related to the fact that FDI only constitutes a part of the total flow of international capital. In countries which are members of the IMF, the monthly and annual Balance of Payments Statistics give a good picture of the total inflow of capital. With respect to Taiwan, data has to be fetched from national statistical sources. In most countries there are major differences between data given in their balance of payment statistics and other sources. For example, in the case of Taiwan the value of (6a) is around ten times larger than the value of (2) because it is not compulsory for investors with self-provided foreign exchange to seek approval for outward FDI (Table 4.1). In addition, the real capital flow may originate from third countries (6b), or be raised within the host country (6c). A combination of these three financial sources is not uncommon in practice. Although measurement (6) is generally preferred to the *ex ante* methods, a major disadvantage is that only the aggregate flow data is obtainable. There is no published data on either the geographical or sectoral distribution of these flows. This fact limits the use of the national accounts statistics to simply setting reference points for other measurements.

So far we have looked at FDI from the viewpoint of the home country; there are, however, a number of factors that favour the adoption of the host country viewpoint. The main source of host country data is usually the authorized body for inward FDI, normally a government agency within the Ministry of Finance, the Ministry of International Trade and Industry or the Central Bank.[1] As there are in all Pacific Asian countries relatively strict rules controlling the in- and outflow of capital, the management of inward FDI for developing domestic production has been given a high priority by the governments. The organization, administration and supervision of these investments often have a central position in the national economic policy. This situation facilitates research into FDI, as there is normally a good supply of information on investment applications in Asian countries. Two types of countries can be distinguished in this respect: first, those where all foreign participation in the domestic industry has to be directed through the government authorized body, and where in consequence all transfers are recorded. The most complete example in this group is the People's Republic of China. The second group comprises countries that operate rules which permit other routes of inward FDI. The significance of these 'unofficial' imports of capital vary considerably from country to country. Here, it is assumed that the majority of inward FDI is taking place through the authorized bodies, because the inflow of capital is often coupled with promotions of different kinds, e.g. tax reductions, provision of infrastructural facilities, or unlimited export of profits. Even though the consultation of the official body promoting foreign inward investment is optional, the disadvantages in using other channels are such that most foreign companies take the official route.

Table 4.1 Estimates of foreign direct investment flows from Taiwan, 1986–90 (million US$, current prices)

	1986	*1987*	*1988*	*1989*	*1990 (est)*
Approved applications of investment abroad (measure 2)	80	125	250	980	1560
Approved applications of Taiwan in host countries (measure 4)	60	600	2600	3300	8000
Reported capital outflow from Taiwan (measure 6a)	66	704	4720	6951	15500

Sources: Far Eastern Economic Review, 1 Nov 1990, and 19 April; The Economist Intelligence Unit, *Country Report Taiwan,* No. 2, 1990; *Industry of Free China,* No. 5, 1990

The measurement of FDI from the host country viewpoint can be made at four stages: the application to make an investment (3); the official approval of the application (4); the granting of the investment certificate (5); and the start of operations of the new or expanded company (7). Since only a fraction of the total applications to invest will result in production these four measures will give markedly different results. In Thailand between 1985 and 1990, the total value of project applications amounted to around 2000 billion Baht, while the value of operations started during the same period was only 177 billion Baht (Figure 4.2). The ratio between implementation and approval was 0.09 in this case.

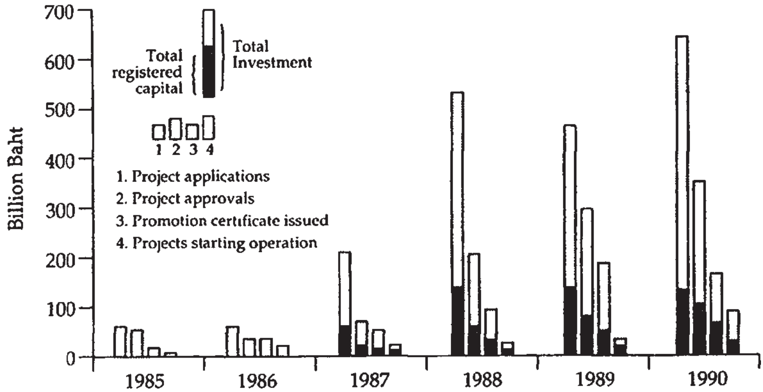

Figure 4.2 Thailand: investment applications and approvals
Source: Board of Investment, Bangkok

Data on the capital value of the proposed investment can in the same way be compared to the national accounts of the host country (6), in order to get an idea of the share of total capital inflow that is captured through methods 3, 4, 5 and 7 respectively (Figure 4.1). Once again, there is no opportunity to disaggregate these figures into separate countries or economic sectors. The inflow of capital from the home countries (6a) may dominate in the initial phase, while finance for later expansion is more often provided from either the international capital market (6b), or raised within the host countries (6c). In the latter case, an important source of finance is the accumulated reserves of the domestic subsidiary. There are huge variations in this respect between countries. American foreign investment is more often conducted from banks operating in the USA, while Japanese investment follows a more complex pattern. The internationalization of the *sogo shosha* network has given the Japanese companies a higher flexibility, as the necessary financing is obtained from many sources, both domestic and foreign. The expansion of

Japanese investment in the USA has to a great extent been financed from within the American capital market.

Through a comparison of the figures of approved capital transfers in the home and host countries respectively (2 and 4), it is possible to measure the differences between these methods. There is however too large a difference between the two sources to use them in parallel (Table 4.2). Therefore, one has to be selected as the basic source. It is reasonable to take the perspective of the host country in order to catch up all investment flows from the single company, not only those originating in the home base of the company in question. In Taiwan, government data on outward investment registers only a fraction of the direct flows. In Table 4.1 an attempt is made to compare investment flows according to different measures, as was previously mentioned.

Table 4.2 Taiwan's FDI in selected countries in South East Asia, measured from the home country and the host country, 1987 and 1988 (million US$)

	Thailand		*Malaysia*		*Philippines*		*Indonesia*	
	as approved by							
	Taiwan	*Thailand*	*Taiwan*	*Malaysia*	*Taiwan*	*Philippines*	*Taiwan*	*Indonesia*
1987	5.4	300	5.8	47	2.6	9.0	1.0	7.9
1988	11.9	842	2.7	307	35.8	107.0	1.9	910.0

Source: Investment Commission, MOEA, Outward Investment Analysis Report, 1988, quoted by Liang and Liang (1990:27)

These dissimilarities become even more apparent when the data are disaggregated to the single partner countries. As is shown in Table 4.2 the disparity is almost 500 fold in some cases, such as Indonesia in 1988. It is evident that there is a time-lag factor in these examples. When FDI rises quickly, as is the case of Taiwan after 1987, it takes several years before the approved outward FDIs (measure 2) are recorded in the host countries (measure 4).

IMPACT ON THE FOREIGN TRADE PATTERN

Once operations are started, a new issue emerges; that is, the impact of the FDI on imports and exports between the countries involved, which is summarized in Figure 4.3. The purpose of FDI, as seen from the viewpoint of the home country, may first be the expansion of sales

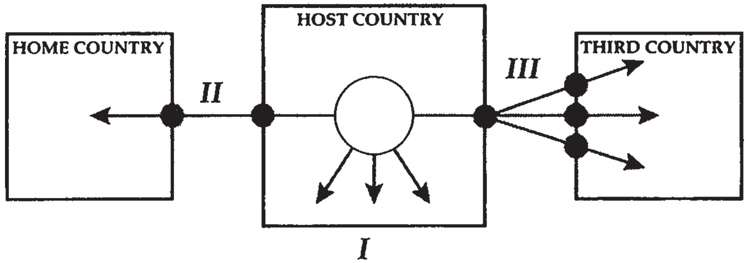

Figure 4.3 The impact of FDI on international trade

in a market that is highly protected from imports (I), or, second, using the host country as a low-cost operation location, either for re-exports to the home country (II), or for world-wide distribution (III). All three motives are present in the countries of Pacific Asia, but their importance varies considerably between sectors and countries. In case I, which is today the dominant one in South East Asia, there will first be a growth of exports of parts and components from the home country as a result of the market expansion in the host country. Thereafter follows a phase of decline, when domestic suppliers of parts and components in the host country will gradually replace imports from the home country as a consequence of the implementation of local content requirement schemes. Finally this pattern tends to be transformed into a mutual trade expansion between the two countries as the new subcontractors in the host country start exports to the home country. The trend in ASEAN during the early 1990s has been to launch different kinds of component complementation schemes, aiming at strengthening the suppliers of parts and components and promoting division of labour and specialization among the ASEAN members.

The best example of case I is the automotive industry, where tariffs on the import of CBU (completely built-up) units are prohibitively high, and where the potential demand and market prospects are good. Most Japanese and several European makers of passenger cars have established assembly production in ASEAN countries only for this reason. There is still almost no trade in parts, components or assembled cars within ASEAN, although there are plans to make such shipments possible. The automotive industry is only the most spectacular example, for the same pattern can be found in several other consumer goods sectors. Japanese FDI in industrial countries of Western Europe and North America is, on the other hand, made overwhelmingly in order to expand foreign markets, or to secure production facilities against the anticipated imposition of quotas and import restrictions (Ohmae 1985; Kujawa 1986; Yoshida 1987).

Cases II and III are limited to labour-intensive sectors of industry, and are characterized by their extreme volatility. Most countries in the region are, or have been, typified by case II. Taiwan is a good example of a country which in the 1960s and 1970s was a host country for Japanese FDI in light industry, but has become a source country for FDI within the same sectors in South East Asia. The methodological problem in this case is that this type of investment is mainly to be found within small- and medium-sized industries and are accordingly more difficult to trace than case I investments. There is a huge number of short-term small investments, sometimes even limited to one single order. A sure sign of a country entering into this phase is a quickening of growth in the export of industrial goods to Japan. While case II is fairly common, case III has to date mainly been limited to Hong Kong and Singapore. The tendency is for more countries, such as the People's Republic of China, Malaysia and Thailand to become involved in direct world-wide export of goods produced by foreign-owned manufacturing companies. In the case of PRC this expansion has mainly taken place within the Guangdong and Fujian provinces and is financed through Hong Kong and, probably, Taiwanese, capital investments. Only a fraction of these investments are officially recorded. Therefore there is little point in attempting to estimate the size of FDI in these cases. Instead the *ex post* approach of measuring the employment effects, and the changes in the foreign trade pattern will probably give a better understanding of the situation.

Finally, from the methodological viewpoint it is necessary to note the differences between export and import statistics. Export statistics are not a completely reliable guide to the direction of trade, as the final destination of the goods is not always known at the time of the shipment. Indirect exporting is common in Pacific Asia, particularly when Japan is involved. A Japanese *sogo shosha* may organize its South East Asian operations so that all goods manufactured for export to Europe are collected at an entrepôt location, say Singapore, where packaging for further delivery to Europe is made. In Europe there is likely to be a similar distribution centre, e.g. in the Netherlands. In European import statistics, the country of origin for the delivered goods will appear as either the South East Asian country where the goods were initially produced, or Singapore, depending on how much the product changed its 'identity' while in Singapore. However, from the viewpoint of the South East Asian country where the export-goods were originally made, it is most likely that the country of destination in the export statistics will be recorded as Singapore, concealing the true geographical pattern. Thus, it may be concluded that import statistics are to be preferred as a source for investigating the geographical pattern of foreign flows.

EMPIRICAL EVIDENCE: THE CASE OF TAIWAN

Taiwan has, during the post-war era, been one of the world's fastest growing economies. The total value of Taiwan's trade soared from US$324 million in 1955, to US$22,000 million in 1990. As the export value has exceeded imports during the entire 1980s, its performance is even more impressive on the exports side, where Taiwan was the twelfth largest in the world, and the third largest in Pacific Asia in 1990 (Table 4.3). Excluding Japan, only Hong Kong shows a higher export value largely as the crown colony includes re-exports originating in the PRC and elsewhere in its data. South Korea has a higher turnover than Taiwan because of its higher imports.

Table 4.3 Foreign trade turnover (exports+imports) in Pacific Asia, 1955–90 (billion US$, current prices)

	1955	*1960*	*1970*	*1980*	*1985*	*1989*	*1990*
Japan	4.5	8.6	38.2	272	308	484	523
Hong Kong	1.1	1.7	5.4	42	60	145	165
Republic of Korea	0.3	0.3	2.8	40	61	124	135
Taiwan	0.3	0.5	2.9	40	51	119	122
Singapore	2.4	2.4	4.1	43	49	94	114
P.R. China	3.1	5.2	4.6	38	70	110	113
Thailand	0.7	0.9	2.0	16	16	45	56
Malaysia	1.7	2.1	3.1	24	28	48	54
Indonesia	1.5	1.4	2.1	33	29	39	42
Philippines	1.0	1.3	2.2	14	10	19	21

Sources: IMF (1990) *International Financial Statistics,* Washington; IMF, *Monthly Report,* Washington, June 1991

During the same period Taiwan's foreign trade deficit was eliminated and replaced by a vast surplus, the export/import ratio increasing from 0.66 in 1955–9 to a peak at 1.64 in 1986, whereafter it fell to 1.22 in 1990. The main cause of the variations has been the changing exports to the USA. The export/import ratio of 0.10 in 1955–9 rose to a peak at 3.50 in 1986, and fell during the following years to 1.72 in 1990. In contrast, the export/import ratio with Japan has, since the mid-1960s, remained relatively stable, showing a constant bilateral deficit. The export/import ratio has been varying between 0.3 and 0.6.

Since 1950 Taiwan has received large volumes of official development assistance and military defence aid from the USA. Huge capital transfers were made to Taiwan in order to assist the Kuomintang (KMT) government in its efforts to challenge the communists on the mainland. From the 1960s there was a growth of private FDI from the United States which totally dominated as source country until the middle of the 1970s when the continuously increasing overseas Chinese investment, originating mainly in Hong Kong and which originally had been the first private investor in Taiwan in the 1950s, once again exceeded the FDI from the US. This flow peaked in 1980, and has since then lost its relative importance. From the second half of the 1960s there was a significant growth of Japanese investment. Inward FDI from Europe, however, only started to arrive in the early 1980s (Table 4.4).

Table 4.4 Approved inward foreign direct investment in Taiwan by area, 1952–90

Year	*Total amount (million US$)*	*Distribution by source country (%)* Overseas Chinese	*USA*	*Japan*	*Europe*	*Others*	*Total*
1952	1	100	0	0	0	0	100
1956	3	71	29	0	0	0	100
1960	15	7	91	2	0	0	100
1965	42	16	75	5	0	4	100
1970	139	21	35	20	3	2	100
1975	118	40	35	20	3	2	100
1980	466	48	24	18	3	7	100
1985	702	6	47	21	14	12	100
1990	2,302	10	23	36	15	16	100
1981–5 (ann. av.)	488	9	37	29	10	15	100
1986–90 (ann. av.)	1,618	10	19	32	19	20	100

Sources: Industry of Free China, No. 6, 1990; No. 6, 1991

The approved foreign and overseas Chinese direct investment distributed by industry has traditionally been concentrated in the export sectors. The manufactured exports of foreign firms constituted approximately 40 per cent of their total sales and 22 per cent of the country's total exports in 1974 (Liang-Liang 1990). Recently the importance of domestic consumption has soared, and in 1985 the above-mentioned figures had fallen to 16 per cent and 11 per cent respectively (ibid.). Looking at the accumulated investment during the entire period from 1952 to 1990, two sectors are the dominant receivers of foreign capital, namely the manufacturing of electric and electronic products, and chemicals (Table 4.5). These two sectors alone account for almost 44 per cent of the total value of US$13,252 million of approved FDI in Taiwan since 1952. However, it is important to note the growing foreign interest in the Taiwanese service sector, particularly banking and insurance, but also department stores. It appears that investment in the service sector has enjoyed a relatively higher return than in the manufacturing sector (Liang-Liang 1990).

Table 4.5 Approved private foreign and overseas Chinese investment by industry (percentages)

Industry	*1952–90*	*1990*
Food and beverages	4.6	4.8
Electronic and electric products	23.7	16.4
Textiles	2.4	1.5
Paper and paper products	0.7	0.4
Chemicals	19.9	23.6
Non-metallic mineral products	3.9	1.4
Basic metals and metal products	7.2	8.1
Machinery, equipment and instruments	8.0	5.6
Transportation	2.4	1.7
Construction of buildings	1.1	0.5
Banking and insurance	6.4	13.7
Other services	12.1	7.3
Others	7.6	15.0
TOTAL	100.0	100.0

Source: Industry of Free China, No. 6, 1991

Export-oriented foreign firms appeared to use more labour-oriented techniques than their local counterparts in the same industry (Schive and Yeh 1982). Given the foot-loose nature of export-oriented FDI in Taiwan, investing firms adapt their techniques to local circumstances to take full avantage of low labour costs (Liang-Liang 1990). The transfers of technology normally focus on training within the firm as well as outside, extending to the suppliers of inputs and users of final products. Ranis and Schive (1985) take the example of the Taiwanese subsidiary of Singer to show how FDI helped improve the quality of parts supplied by local firms and the sewing machine industry in general.

The dissimilarities in Taiwan's bilateral trade balances with its main partners reflect different patterns in the FDI from the USA and Japan respectively, and confirm Kojima's (1978) findings that during the 1960s Japan's FDI complemented international trade, while FDI from the United States substituted for international trade. After 1970 American FDI also to some extent complemented the bilateral trade flows between the USA and Taiwan.

During the 1950s the United States was the dominant source of Taiwanese imports. At the same time the main share of the still predominantly agricultural exports went to Japan. Between 1955 and 1970 a major transformation of Taiwan's foreign trade pattern took place. The share of the United States in Taiwanese imports declined and was replaced by Japan. On the export side the situation was reversed.

In the initial phase of the industrialization process more goods went to the USA, while Japan's share as the main consignee of Taiwanese exports went down in pace with the decreasing importance of raw materials. When Japan was the main buyer of Taiwanese products, sugar alone accounted for two-thirds of the export value, followed by rice. The growth of exports between 1953 and 1970 to the USA consisted mainly of light manufacturing, particularly textile products and shoes. The years around 1970 symbolize a turning point. Since the beginning of the 1970s the country composition of Taiwan's foreign trade has been fairly stable (Figure 4.4). Only the exchange rate fluctuations in the 1980s caused some variations in the exports to the USA. The export base continued to broaden. The diplomatic reorientation of the USA towards a new relationship with the PRC government that started in 1972 forced a new thinking in Taiwan's economic policy. The importance of a rapid transformation into a modern industrialized society was even more stressed, and the attempt to reach a more independent position to the USA and Japan was given highest priority. The exports of non-electrical and electrical

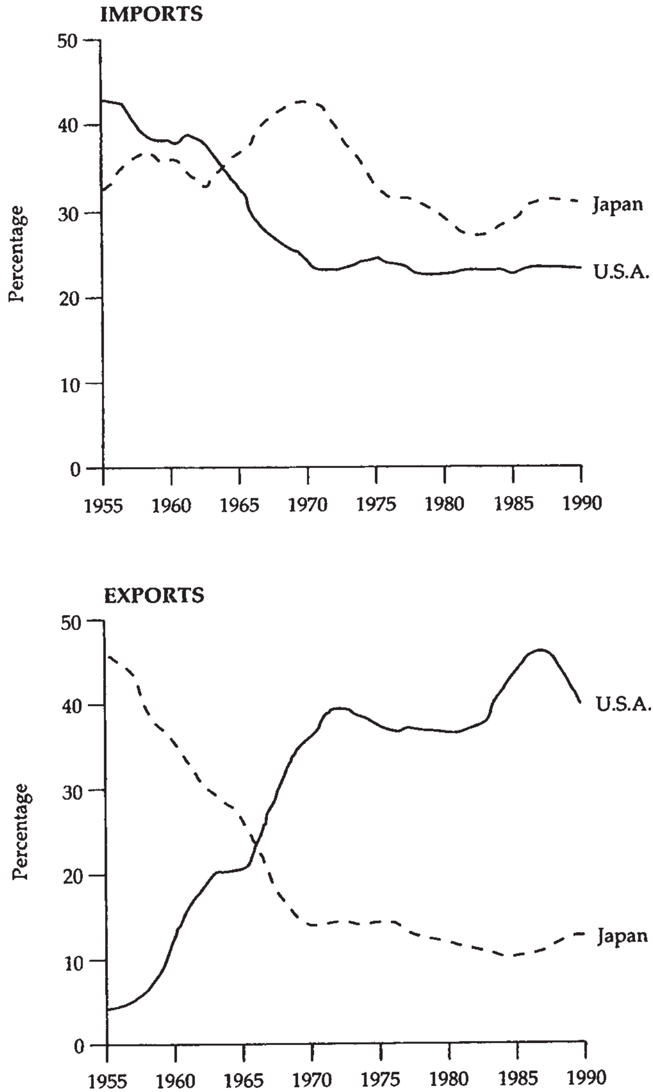

Figure 4.4 Taiwan: international trade
Source: Republic of China (1990) *Statistical Handbook,* Tapei

machinery showed the highest growth rates during this period, particularly telecommunications equipment, office machines and data processing equipment. Under the surface of the relatively stable import and export shares with Japan and the USA after 1975 lies a considerable change of commodity composition in the belateral flows (Table 4.6).

The difference in commodity composition of the trade flows with Japan and the USA has also increased during the last ten to fifteen years. The leading imports from Japan have become capital goods and intermediate products, e.g. machinery and equipment, metal products and chemicals, for the production of manufactured goods that Taiwan exports to the USA and elsewhere. The exports to the USA were much more concentrated towards consumer goods, often with a relatively low technology content. For example, even in the late 1980s the US market accounted for more than 65 per cent of Taiwan's furniture and footwear exports (Liang-Liang 1988).

The rapid increase of Japanese FDI after 1970 gave rise to a quick growth of exports to Japan of machinery, metals, metal goods and plastic articles. It is notable that unlike exports to the USA there was no obvious technical upgrading in the exports to Japan between 1970 and 1990. Since large-scale Taiwanese direct investment in the USA is such a new phenomenon, it is not yet possible to conclude whether these investments have been substituted for Taiwanese exports in order to reduce the embarrassingly high bilateral trade surplus, or if they are complementary in character. However, the rapid decline of the trade surplus since 1987 may indicate that the FDI is replacing exports. The quick decline of the trade surplus since 1987 may be a sign towards substitution rather than complementation while the contrary phenomenon has occurred in relation to Japan. While Taiwan has accelerated its FDI in the United States, there is no such growth in the FDI to Japan. On the other hand there was a sharp increase of the Japanese FDI in Taiwan during the late 1980s, presumably in order to reduce the bilateral trade surplus towards Taiwan, as is shown in Table 4.4. In order to reduce the trade surplus with America, the authorities have dispatched 'Buy American' missions to the United States, the average rate of effective duty is in process of reduction, and a 55 per cent appreciation of the NT dollar against the US dollar was carried through between September 1985 and December 1989. As a result there are in several cases items for which the United States share of the Taiwanese domestic market has risen sharply since 1987, e.g. passenger cars and alcoholic beverages.

Table 4.6. Taiwan: commodity composition of exports, 1953–90 (percentages)

Year	*Sugar*	*Rice*	*Textiles*	*Plastics*	*Metals*	*Machinery*	*Electrical machinery*	*Others*	*TOTAL*	*Manufacturing share of exports*
1953	67	11	0	0	0	0	0	22	100	5
1960	44	3	14	0	4	0	0	35	100	28
1965	13	9	16	0	5	1	3	51	100	43
1970	3	0	32	6	5	4	15	37	100	77
1975	5	0	28	6	5	4	15	37	100	81
1980	1	0	23	7	6	4	18	41	100	88
1985	0	0	19	4	8	10	15	44	100	91
1990	0	0	15	6	8	17	18	36	100	98

Sources: Industry of Free China, No. 6, 1990; No. 6, 1991

Despite all these measures there have been several charges of 'unfair trade' from the American side, and the United States Trade Representative has put Taiwan's trade regime under considerable pressure during recent years. However, Japan has no doubt benefited more than the United States from the steps being taken to lower trade barriers (Liang-Liang 1990). The large quantities of labour-intensive products exported to the United States tended to compete with the products of those American industries that were important employers but that were the least competitive and least profitable, and consequently, the most protectionist in the United States (ibid.). The growing direct investments in the United States have in this respect served the purpose of avoiding trade barriers and reducing the trade surplus, as well as transfering new technologies.

Table 4.7 Taiwan: assets of financial institutions (current prices)

	1985	1986	1987	1988	1989	1990
Gross foreign assets (NT$)	1,303	1,932	2,412	2,425	2,323	2,454
Net foreign assets (NT$)	1,169	1,649	1,982	2,063	2,006	2,153
Net foreign assets (US$)	29.3	46.4	69.4	73.2	76.6	79.4

Source: Central Bank of China, *Financial Statistics Monthly,* Taiwan District, Republic ofChina (various)

Since 1987 Taiwan has become one of the largest foreign investors in other Asian countries. This change reflects the liberalization of its foreign-trade regime in order to build international economic ties, not only in an attempt to break Taiwan's diplomatic isolation, but also to reduce the extremely high foreign exchange reserve. These still amounted to NT$2,153 billion or US$79 billion in December 1990, even after the great outflow of capital from 1987 onwards as a result of the soaring FDI. In December 1986 the net foreign assets amounted to NT$1,649 billion or US$46 billion. The appreciation of the NT dollar has thus contributed to the 70 per cent growth of the Taiwanese net foreign assets between 1986 and 1990.

When Taiwanese investment abroad started at an inconspicuous level in the early 1970s, the Philippines was the largest host country, and most investment went to the agricultural sector. The recent boom has above all favoured three countries: the People's Republic of China, in which investment was strictly forbidden by the Taiwanese authorities until 1987, Thailand, and Indonesia. It is assumed that Taiwan is already the fourth largest investor in the PRC and Thailand, and the third largest in Indonesia (Walters 1990a; 1990b).

There are considerable differences between the geographical pattern of Japanese, Hong Kong and Taiwanese investment in Pacific Asia. Some 50 per cent of Japanese investment in other Asian countries goes to the relatively well-developed industrial economies with generally higher wage levels, such as Hong Kong and Singapore. The output from companies financed by Japanese FDI is largely re-exported all over the world (see case III in Figure 4.3). Japanese investments in Thailand, Indonesia, Malaysia and the Philippines represent case I, as their main motive is market expansion behind high tariff walls. In Hong Kong on the other hand, the lion's share of investment goes to the PRC and is overwhelmingly characterized by the relocation of companies with a high labour intensity to lower wage level locations. At the same time this relocation reflects a general upgrading in terms of technology and quality of industry in Hong Kong. The majority of the output from the PRC provinces of Guangdong and Fujian, as well as from the Special Economic Zones of Shenzhen, Zhuhai, Hainan, Shantou and Xiamen, is exported back to Hong Kong, thus illustrating case II in Figure 4.3. Taiwanese direct investment in other Asian countries has, during recent years, gone mainly to Thailand (around US$2000 million in 1987–9 according to host country data), Malaysia (US$1100 million during the same period), and Indonesia (US$1200 million). The volume of investment in the PRC is harder to estimate. The majority goes to Xiamen SEZ across the Taiwan Strait. Since the relaxation of the restrictions on direct commercial contacts, it is estimated that around US$1300 million was invested in the PRC from Taiwan between 1987 and 1989. In all these countries the Taiwanese motive is to find a low-cost location for manufacturing products destined for American and European markets, thus illustrating case II in Figure 4.3. A further motive for producing goods destined for the United States market elsewhere is Taiwan's loss of GSP (General System of Preference) status in 1989.

If one looks at the effects of FDI for Taiwanese foreign trade patterns in the Pacific Asian region there are several notable new trends. First, one has to keep in mind that Taiwanese trade with its neighbouring countries actually decreased after 1975 to reach its lowest level around 1985. The rapid growth of exports to the competing 'dragons' as well as to low-cost South East Asian countries after 1986, has only brought trade back to the level of the 1970s. The only exception to this is Hong Kong where the growth of indirect trade with the PRC has resulted in a substantial increase over the 1975 level.

Table 4.8. Taiwan's exports to competing NICs and low-cost countries in ASEAN, 1975–90 (percentages)

	1975	*1980–2*	*1985–7*	*1988*	*1989*	*1990*
Competing NICs						
Republic of Korea	2.2	1.2	1.0	1.5	1.7	1.8
Singapore	2.6	2.7	2.6	2.8	4.0	1.3
SUBTOTAL	4.8	3.9	3.6	4.3	5.7	5.1
Low-cost ASEAN						
Indonesia	3.3	2.1	0.9	1.0	1.4	1.9
Malaysia	0.8	0.9	0.6	0.7	1.0	1.6
Philippines	1.5	1.1	0.8	1.0	1.2	1.2
Thailand	1.3	0.9	0.8	1.2	1.7	2.1
SUBTOTAL	6.9	5.0	3.0	4.0	5.3	6.8
Hong Kong	6.8	7.8	7.8	9.2	10.6	12.8
TOTAL	18.5	16.7	14.4	17.5	21.6	24.7

Source: Republic of China (1990) *Statistical Yearbook,* Taipei; *Industry of Free China,* No. 6, 1991

However, although the effects of the investment boom in South East Asia have not yet shown in the data there is no doubt that there has been a rapid increase in Taiwanese exports of intermediates and capital goods to South East Asia since 1987; supporting the hypothesis that FDI stimulates rather than counteracts foreign trade (Figure 4.1). The export growth to the low-cost countries has been quicker than the corresponding growth of exports to competing countries like Korea and Singapore.

CONCLUSIONS

Despite considerable variations between countries in Pacific Asia, it is obvious that there are common patterns in the Development of FDI and foreign trade. Taiwan, the most recent follower of Japan's example, has hitherto repeated Japan's transformation from being a relatively closed country in terms of trade and investment with at the same time a trade deficit and a net inflow of FDI from abroad, to becoming a country with a large trade surplus and a net outflow of

FDI to other countries. In terms of the country composition of outward FDI and the motives behind investing abroad, Taiwan has also followed closely in Japanese footsteps. With a foreign exchange reserve almost as large as Japan's it is reasonable to believe that Taiwan's FDI growth has only started and that it will spread quickly to the older industrial nations. Furthermore, it is probable that Taiwanese investment will move increasingly into more technologically sophisticated areas, reducing the present domination of labour intensive light industry. As large-scale FDI is a relatively recent phenomenon within Pacific Asia, it is important to generally establish definitions and descriptions of these capital flows in order to improve our interpretation of the far from satisfactory FDI data.

NOTE

1 Examples of such bodies are Thailand's Board of Investment (BOI) within the Office of the Prime Minister, Malaysia's MIDA (Malaysian Industrial Development Authority), Indonesia's Investment Coordinating Board (BKPM) and the Ministry of Foreign Economic Relations and Trade (MOFERT) in the People's Republic of China.

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5

THE ROLE OF THE STATE IN THE ECONOMIC TRANSFORMATION OF EAST ASIA

Jeffrey Henderson

A quarter of a century ago Ralph Dahrendorf drew a distinction between two types of rationality that had begun to infuse industrial society. 'Market rationality', he suggested, was based on the assumption that 'a smoothly functioning market is in fact to the greatest advantage of the greatest number'. As regards the state, it resulted in a 'politically passive…hands-off attitude in matters of legislation and decision-making'. 'Plan rationality', in contrast, 'has as its dominant feature precisely the setting of substantive social norms. Planners determine in advance who does what and who gets what' (Dahrendorf 1968:219). While it is clear that Dahrendorf treated market and plan rationality as ideal-type constructs, it is also clear that he regarded the capitalist political economies of North America and Western Europe as the closest empirical approximations to the former, and state socialist political economies, to the latter.

Dahrendorf's conceptual distinction and their empirical affiliations were developed at a time when liberal European intellectuals, such as he, still harboured a residue of optimism about soviet-type societies and when the industrializing societies of Asia, with the partial exception of Japan, were but a blur on the consciousness of most Western scholars. He can thus be forgiven, perhaps, for not drawing a further distinction between the rational intent of market and plan rational political economies and the empirical consequences of their 'rationality-in-action'. Given the benefit of hindsight, were we to draw this distinction today, then the inequities, and perhaps irrationalities, of both types of political economy would become clear. We would be forced to recognize that whatever its contribution to the expansion of GNP, raising living standards, the erradication of poverty and the construction of relatively egalitarian social arrangements, the Leninist project–and particularly its Stalinist derivatives–in the developing world (for even the USSR was only ever the world's most developed Third World society), was ultimately a failure. Additionally we would have to take cognizance of the fact that 'market rationality' has itself engendered significant 'deformations' over the last fifteen years or so. Driven by economic and social policies that have been legitimated via the tenets of neo-classical economics, these 'deformations' have been responsible for the destruction of the livelihoods (if not the lives) of tens of millions of people from Britain, to the United States, to Chile, to Australia, and which now threaten to wreak havoc with the economies of many of the former state socialist societies, such as Poland.

To construct a typology of the world's political economies adequate to the task of reflecting the realities of the last decade of the twentieth century, considerable refinement and supplementation of Dahrendorf's proposal would be necessary. This would be so not simply because of the historical transformations indicated above, but also because it would have to take into account the experience of Japan and the newly industrialized countries (NICs) of East Asia which have developed neither market rational nor plan rational political economies as Dahrendorf understood them. As will become clear as the chapter unfolds, these societies, while definitely not socialist, are very much a product of state planning and influence; and while they are definitely capitalist, they cannot be easily equated with the market-based societies of Western Europe and North America. As some scholars have recognized (e.g. Berger 1986), Japan and the East Asian NICs have pursued a very different route to the modern world than that traversed by Britain and subsequently other Western capitalist societies.

This paper is offered as a prolegomenon to a theory of state-economy relations in East Asia. I shall begin by elaborating a typology of national political economies designed to grasp the diversity of empirical possibilities as we move towards the close of the century. I shall locate Japan and the East Asian NICs within the typology so as to allow us to draw, more effectively, the comparisons and contrasts between them and other political economies. As part of this process I shall argue that it is these societies, rather than state socialist ones or those now being built upon the legacies of state socialism, that need to be grasped as the best examples of plan rational political economies. Second, I shall justify my argument that these societies should be understood primarily as examples of state-led economic transformation. This section inevitably will involve a critical assessment of other claims to the determination of the East Asian 'miracle', and in particular those advanced by economists working from within the neo-classical paradigm. It will also, however, involve an attempt to be sensitive to the real empirical differences between the societies in question, as well as attending to the 'dark sides' of their developmental dialectics. Finally, I shall advance some hypotheses as to why the East Asian route to the modern world should have involved such a decisive role for state policy and influence.

CONCEPTUALIZING NATIONAL POLITICAL ECONOMIES

Following the lead of Chalmers Johnson (1982:18–26) I have suggested above that the concept of plan rationality is now more suitable for the analysis of Japan and other East Asian political economies than it is for state socialist societies or their recent derivatives. Johnson goes on to suggest that the latter political economies are best conceptualized as 'plan ideological'. If we are to distinguish between political economies in which the activities of the state have been decisive to their economic and social fortunes, then logically we need to interrogate the empirical referents of market rationality in order to identify whether conceptual distinctions need to be made among the political economies that might otherwise be grouped together under that rubric. I suggest that the experience of 'new right' economic and social policies in the 1980s, reaching their zenith with Thatcherism and Reaganism, but continuing to form the basis of restructuring drives in many societies through to the present day, demands that a further conceptual distinction should be made. I propose, therefore, to distinguish between market rational political economies on the one hand, and 'market ideological' ones on the other.

We can define *market rational* political economies as those in which the state legislates the parameters in which private companies operate. While the state certainly regulates the economy in various ways (and what state does not?), investment, production and distributional decisions are the preserve of private companies and their actions, if disciplined at all, are disciplined by the market. Whether a given technology is utilized, then, whether a particular product is developed or market penetrated, is the sovereign concern of the company itself.

A *plan rational* political economy is one in which state regulation is supplemented by state direction of the economy. Here national economic goals are identified and the state operates to encourage or cajole companies to act in accordance with these goals. While the economy is largely and usually overwhelmingly in private hands and companies engage in competitive relations with one another and are disciplined by the market, the state also intervenes to discipline companies, where necessary, in order to achieve national goals. Should a sector deemed essential to economic growth not exist, then in plan rational political economies, it is likely that the state will induce it. A plan rational political economy is one in which the state is likely to intervene deliberately to get 'relative prices wrong' (Amsden 1989:139–55) should this be necessary for national economic advancement. A plan rational political economy, then, is one in which economic ministries and planners recognize, at least implicitly, that there is no simple or direct relationship between corporate profits and national economic health. A plan rational political economy, then, is one in which development is orchestrated by a capitalist 'developmental state' (Johnson 1982; Castells 1992).

While there are some similarities between plan rational and plan ideological political economies, especially in terms of the state's setting of national economic goals, their differences are of greater significance. In *plan ideological* political economies the state owns and controls most, if not all, economic units. Resource allocations and investment decisions and the rest, are generally a state rather than a corporate or market function. Furthermore the state, at least officially, has as a central concern the redistribution of wealth and income. Most importantly for our purposes, however, empirical evidence that particular policies are failing to meet their aims, tends to be disregarded. Ideological dogma, rather than scientific analysis or pragmatism, dominates policy choices and applications.

A *market ideological* political economy is one that seeks to revert to the state-civil society relation that pertained during the epoch of competitive capitalism; namely one in which the state merely 'allocates' those resources and responsibilities that have traditionally been under its control, rather than 'producing' resources that during the epoch of monopoly capitalism have been historically under-provided by private capital (Offe 1975). Such a political economy has an important element in common with a plan ideological political economy, and this, in fact, is its defining characteristic. In a market ideological political economy, policy formulation and implementation is relatively impermeable to argument and to empirical evidence which contradicts its basic values. Policies arise then from ideological dogmas, usually legitimated intellectually by neo-classical economic theory, which reifies–indeed deifies–'the market'.

As with Dahrendorf's original constructs, those proposed here should be regarded as ideal-types. Actually existing political economies are always combinations of elements of two or more of these ideal-types. The point, as always, is where the balance lies; which of the ideal-types, in other words, best characterizes a given society, at a particular historical moment in terms of its state-economy relation.

On the basis of the conceptual distinctions I have drawn, it is now possible to represent, diagramatically and provisionally, state-economy relations for the political economies with which this chapter deals. For the sake of comparison, a number of other industrial and industrializing societies are included as is a sense of the likely trajectories of their political economies over the next few years.

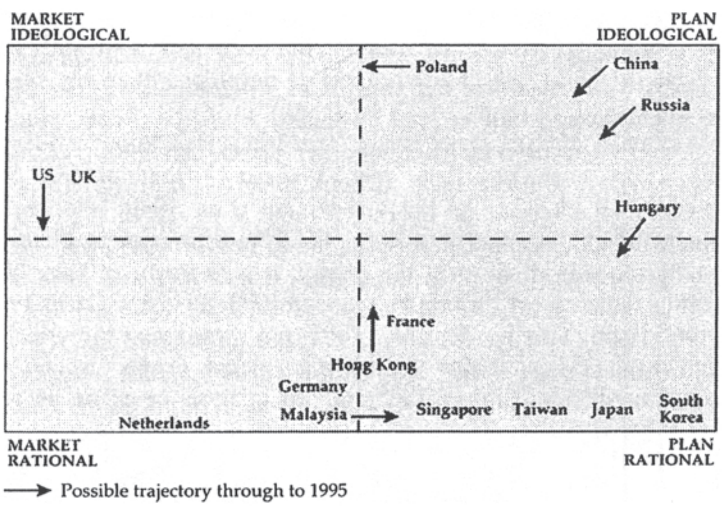

Figure 5.1 National political economies in 1992
Source: Adapted from Henderson and Appelbaum 1992:21

Although the contents of Figure 5.1 should be regarded as no more than a heuristic approximation, they do serve to indicate that many of the world's recently most successful political economies can be located in, or close to, the plan rational 'quadrant'. Similarly, of the capitalist industrial world's political economies that have been in decline in recent years, two of the most important amongst them have been firmly located within the market ideological 'quadrant'. While it would go far beyond the scope of this chapter to try to justify the positioning for all the cases represented, the next section presents such a justification for why Japan and the East Asian NICs, in spite of many important differences between them, should be regarded as plan rational political economies.

STATES AND ECONOMIC TRANSFORMATION

The rapid economic recovery and expansion of Japan after the devastation of World War II and the even more rapid transformations of Hong Kong from the 1950s, South Korea and Taiwan from the early 1960s and Singapore from the late 1960s, have proven to be an enigma for many of those working from within the general traditions of development theory. Alice Amsden, for instance, has shown how difficult it is to explain Taiwanese development when utilizing a dependency framework (Amsden 1979; see also Barrett and Whyte 1982). Similarly, while some attention has been paid by world-system analysts to the historical antecedents of development in the region (see in particular Moulder 1977 on Japan), little of it, as yet, appears to have been focused on contemporary industrialization. Additionally, while a world-system related thesis—that of the New International Division of Labour (Frobel *et al.* 1980)—appeared initially to hold out hope of grasping the dynamism (and problems) of economic transformation in the region, it now seems to have been woefully deficient (Hill 1987; Henderson 1989:49–76; Castells 1992; Gereffi 1992). Finally, Amsden (1990) has questioned the utility of Alain Lipietz's otherwise stimulating 'global fordist' version of regulation theory (Lipietz 1987) for an analysis of South Korean industrialization.

In spite of the fact that development in Japan and the East Asian NICs has appeared to be 'exceptional' from the perspective of most of the general contributions to development theory that have emerged since the mid-1960s, it is possible to abstract from the specialist literature six determinations that have been advanced in various combinations to explain the East Asian experience. These are: the historical contexts and conjunctures out of which their transformative processes emerged; the role of foreign aid (both military and civil, and particularly from the United States) and direct investment by transnational corporations; the significance of a regionally unique economic culture rooted in Confucianism; repressive labour systems that have ensured supplies of cheap labour; the importance of free markets; and the role of state policy and influence. As I have evaluated the explanatory significance of these proposed determinations elsewhere (Henderson and Appelbaum 1992), I do not intend to traverse the same ground here. It should be emphasized, however, that while I deal with the role of the state in a manner which abstracts it methodologically from its historical and empirical relation with some of the other determinants, I do not intend by this to imply that the nature of the state and its policy instruments and implementations should be the sole focus of those who seek to unlock the mysteries–or the myths–of economic transformation in the region. However, as the issue of free markets or 'unfettered enterprise' has made most of the running in attempts to explain the East Asian economic 'miracle', and continues to have enormous ideological power in scientific and government circles in most of the rest of the world, including the former state socialist societies of Central and Eastern Europe,[1] it is necessary here to pay some attention to this account. This discussion, and the critique of neo-classical development theory that it will involve, will lead naturally into our argument about the significance of state initiatives for East Asian economic transformation.

The Free Market Explanation

While the rapid economic transformation of Japan and the East Asian NICs came as a surprise to development analysts schooled in the theoretical traditions from Baran's (1957) neo-imperialism to Lipietz's (1987) global fordism, not to mention much of what came in between, it did not come as a surprise to economists imbued with the neo-classical paradigm. Since the work of Jacob Viner (1953) and that of Peter Bauer and Basil Yamey (1957), neo-classical analysts had become convinced that the blockages to development in the Third World were largely self-imposed. They were the products of distortions in markets for labour, capital, natural resources, technology and so on that arose from endogenous cultural forms and social practices in many parts of the developing world, but particularly from the interference (and usually corruption) of the national state. The reason why Japan had become the world's most successful economy and why the East Asian NICs, almost alone amongst the societies of the developing world, had moved decisively in the direction of high productivity-high wage economies, was because they had been relatively free of distortions in capital, labour, technology and other markets. In particular, it was suggested that unlike many other developing–and indeed developed–economies, their respective states had either not intervened to distort markets, or if they had intervened, they had done so to correct pre-existing market distortions. Either way, their economies had been exposed rapidly to world-market competition, partly through export-oriented strategies, and as a consequence domestic prices (for labour, capital, etc.) were a reflection of international conditions. Having got relative prices 'right', the positive influence of 'market forces' could be maximized, and the stunning double-digit growth rates typical of the last three decades, achieved. The East Asian experience, then, seemed to vindicate the tenets of neo-classical economics and was seen by many across the Third World as a defeat for those from Raul Prebisch onwards who had argued for autarkic development strategies based on import-substitution industrialization.[2]

A significant fact about neo-classical commentary on the East Asian development process was that the bulk of it came from Western economists who, as Chalmers Johnson (1988) has pointed out, hardly ever studied the empirics of the Japanese or similar East Asian economies. From the vaunted heights of their 'imperial science' (Stigler 1984) they were sufficiently confident merely to extrapolate from their conceptual tool-kit without the need to befuddle their minds with the often awkward detail of the empirical world. The mere suggestion that state policy, for instance, could have made a positive contribution to economic growth in East Asia, was ruled out, *a priori*.[3] Even when economists indigenous to the region engaged in empirical investigations, similar explanatory problems were evident. For instance, one of the region's leading economists, Edward Chen (1979:41) argues when talking of Japan and the NICs that 'state intervention was largely absent. What the state provided was simply a suitable environment for the entrepreneurs to perform their function.'

The essence of the neo-classical account of rapid economic growth in East Asia is that these economies have been successful because they have 'enjoyed' political regimes that have allowed the efficiencies derived from market-based resource allocations to be maximized (Balassa 1981). East Asian governments (that is, those of Japan and the NICs), it is argued, have either never intervened in normal market allocation functions or if they have, they progressively 'liberalized' their economies prior to the intial periods of rapid economic growth associated with export-oriented industrialization (e.g. between 1958 and 1962 in the case of Taiwan, and from the early 1960s in the case of South Korea). Either way, state-induced market distortions have been kept to a minimum, and as a consequence markets have worked more efficiently than in other developing societies.

Robert Wade (1990:23–4), however, has pointed to a secondary theme within the neo-classical literature which has given credence to a modicum of state intervention. Here it is argued that at the aggregate level, East Asian governments have successfully balanced domestic market protection with export-promotion policies. The overall effect has supposedly been the neutralization of one set of state-induced market distortions by another. The influential work of business economist, Michael Porter (1990a), would appear to fit into this second category insofar as it engages with the Japanese and Korean experience. While Porter (1990b:88) allows a 'proper role' for government 'as a catalyst and challenger;…to encourage–or even push–companies to raise their aspirations and move to higher levels of competitive performance', it is clear from his chapters on Japan and Korea (in Porter 1990a) that he has no real conception of how state policy and influence (not to mention, at key moments, state equity-holding) have been at the heart of corporate success in both cases. For Porter the state's role, at most, has been an important contingency, but ultimately not central and decisive to the stories of Japanese and Korean economic growth.[4] As Wade (1990) argues, in spite of allowing explanatory space for state intervention, 'simulated free market' theorists, as he calls them (and Porter would probably be amongst the most creative), have little interest in analysing the empirics of state intervention, and they identify as their primary determinants of economic growth, open markets, unfettered enterprise, the nature of the trade regime, and for those such as Porter, intense competition among domestic firms.[5]

Fifteen years ago it was conceivable for neo-classical economists to make these sorts of claims about East Asian development, and get away with it; to claim, in effect, that Japan and the rest really were examples–perhaps supreme examples–of market rational political economies. Only in the late 1970s did their claim to a monopoly on truthful knowledge in this area begin to be punctured. The earliest sustained alternatives to the neo-classical explanation that I am aware of came in the world-systems inspired book on the historical antecedents of post-war Japanese (and Chinese) development written by Frances Moulder (1977), a book chapter on the Japanese Ministry of International Trade and Industry (MITI) by Chalmers Johnson (1977) and a paper on *etatisme* in Taiwanese development by Alice Amsden (1979). In the 1980s, however, the challenges to the economic orthodoxy began to mount. The seminal contribution was Johnson's book on MITI (1982), though Michio Morishima's (1982) historical-cultural analysis of Japanese development was also significant, not least because he had already by then been appointed to a chair in the Department of Economics at the London School of Economics and Political Science; a department not exactly renowned for its sceptical orientation to the neo-classical paradigm. These were followed by Linda Lim's (1983) path-breaking paper on Singapore, and further contributions on Taiwan by Amsden (1985) and Gold (1986). The book by Harris (1987) and the collections edited by Deyo (1987) and White (1988) provided more general interventions, while the most sustained engagements with the neo-classical accounts of NIC development have come with the books by Amsden (1989) on South Korea, Castells *et al.* (1990) on Hong Kong and Singapore, and particularly Wade (1990) on Taiwan and the NICs more generally. Most recently Jung-en Woo (1991) has laid bare the significance of the state-finance capital relation to South Korean dynamism, while Jonathan Schiffer (1991) has helped to demolish even the Hong Kong support for the neo-classical account and Appelbaum and Henderson (1992) have collected together a number of essays that probe the empirics of economic and social policy and their relation to development in the region.

While these contributions have different projects and were written from a variety of theoretical perspectives, they have one thing in common: they bring in the state. They show that the rapid economic growth and development of Japan and the NICs would have been inconceivable if they had emerged as market rational political economies, as neo-classical accounts in effect would have us believe. Rather they have emerged as heavily state-influenced or directed plan rational political economies. At this point we need to turn directly to a justification of our argument.

Elements of Plan Rational Political Economies

In this section I propose to abstract from the historical evolution of the state-economy relation in Japan and the NICs in order to identify both the common features of that relation in the various cases, and the unique aspects that have been significant to one or perhaps two cases, but not to the others. Though this procedure risks doing an injustice to the rich empirical detail and specificities of the various aspects of the state-economy relation in each country, it has the advantage of allowing us to identify quickly the commonalities and dissimilarities associated with the construction of plan rational political economies in the region. As a result, it will point us directly to the elements that would need to be accorded significant weight in any attempt to construct a general theory of the plan rational route to the modern world in East Asia. I should emphasize, however, that for reasons of space this essay is intended as no more than a prolegomenon to such a theoretical task.

An additional point that needs to be made is that little time will be spent here embedding the state-economy relation in each case in their relevant historical contexts. This is not to say that I accord little determinate significance to, say, the experience of Japanese colonialism or US military and civil aid for the development experiences of South Korea and Taiwan, or to booming world markets from the 1950s to early 1970s for the rapid export-oriented industrialization in the NICs as a whole. Indeed I accept completely Braudel's methodological premise that 'the present…[is] in large measure the prisoner of a past that obstinately survives, and the past with its rules, its differences and its similarities, [is] the indispensable key to any serious understanding of the present' (Braudel 1984:20). The point is simply that the task of historical contextualization of the evolution of the state-economy relation in East Asia would take us far beyond the confines of a mere prolegomenon, and in any case I have addressed these issues elsewhere (Henderson and Appelbaum 1992).

In what follows I list the economic processes on which state policy or influence in East Asia has been brought to bear at particular historical moments when the course of growth and development, or often state-defined national economic goals, required it.

State Equity

Although this has not been as significant a feature of the political economies of Japan and most of the NICs as it has for some of the European social democracies (e.g. France), it has been significant in Taiwan (Wade 1990) and has been used by a number of governments as a means of inducing particular industrial sectors or of ensuring a steady supply, at stable prices, of commodities essential to the growth of the domestic economy. Only Hong Kong among these East Asian cases has not used state equity-holding as part of a general development strategy. Thus in the case of Taiwan, Amsden (1985:91) reports that in 1952, 57 per cent of both industrial production and manufacturing output were accounted for by state enterprises.

Although by the early 1980s the share of such companies in manufacturing production had fallen to less than 20 per cent, state companies remained dominant in the production of heavy machinery, steel, aluminium, shipbuilding, petroleum, synthetics, fertilizers, general engineering, and for a time, semiconductors. In South Korea, subsequent to the military coup which brought the Park regime to power in 1961, the state took the leading role in the production of petrochemicals, synthetics, cement and steel (Amsden 1989). Though due for privatization, the state-created and owned Pohang Iron and Steel Company (POSCO) remains South Korea's (and one of the world's) largest steel producers. Additionally, the banking sector in both South Korea and Taiwan has been largely state-owned (see below). In Singapore the state has significant equity-holdings in such sectors as transportation (Singapore Airlines), petrochemicals, ship-repairing, shipping, engineering, construction and armaments (Lim 1983; Castells *et al.* 1990:182–4). In these cases the model for state equity participation and its relation to economic development has not been the European social democracies, but rather Japan. Subsequent to the Meiji Restoration of 1867–8, the state created an industrial base by setting up its own companies in such areas as steel, shipbuilding, engineering, fertilizers, railways and banking. It also went on to create a capitalist class when it subsequently privatized many of these companies—thus creating *zaibatsu* such as Mitsubishi, Mitsui and Sumitomo—towards the end of the century (Moulder 1977; Morishima 1982).

Creation of Industries

In addition to establishing new industries by means of equity-holding, East Asian states have also induced new sectors by means of encouragement, involving subsidies, or straightforward direction of large private companies. Some of the best examples of this in the past twenty years have occurred in South Korea. There, Hyundai Heavy Industries, now the world's largest shipbuilding company, was created on government instructions (by the Hyundai *chaebol*) in the early 1970s with state-subsidized credit, a protected domestic market for its products and a variety of technical assistance acquired from abroad (Amsden 1989:269–90). Similarly semiconductor production by Samsung, Goldstar and Hyundai was induced as a result of state pressure and support, the latter including the identification and funding of the acquisition of foreign technologies and technical assistance, heavily subsidized R & D and a protected domestic market (Amsden 1989; Henderson 1989:65–7). In addition, the reorganization of corporate structures in the interests of economies of scale and scope, on occasion has also been a product of state direction. Again South Korea provides one of the best recent examples. In the early 1980s, for instance, as a result of duplicate investment and over-capacity, Hyundai and Daewoo were directed to transfer to each other their respective investments in power plant equipment production and passenger cars, creating effective monopolies in those sectors for the companies concerned (Koo and Kim 1992:141).

Market Protection

The North East Asian political economies (Japan, South Korea and Taiwan) have consistently protected their domestic markets from foreign imports. In earlier periods they have done so across the board, though more recently as a result of (largely United States) pressure to 'liberalize' markets and as their own products have become more competitive, protection has been more selective, focusing on particular industries. It is important to recognize here that what liberalization there has been, has had little to do with the abandonment of import-substitution policies. As Amsden (1985) and Wade (1990) report in the case of Taiwan, the Kuomintang regime through to the present day has continued to protect manufactured commodities from import competition where it sought to build domestic capacity in that area. It has liberalized trade, however, on other commodities in which it either did not seek to develop a domestic capacity, or where, such as in certain machine tools, it already had an internationally competitive industry. Similarly South Korea, as Japan before it, has protected particular sectors from foreign imports. Thus for a period of more than twenty years up to the mid-1980s, as part of the attempt to build its capacity in automobile production, the state ensured that only Korean-built cars were seen on the country's roads (Amsden 1990).

Subsidized Capital

A common feature of the North East Asian political economies is that their banks have been either state-owned, as in South Korea and Taiwan, or where private, as in Japan, they have been tightly regulated by the state. State control over the banking system has been coupled with restrictions on companies raising capital by stock floatation or from foreign sources. The consequence of this has been that major corporate expansions–developing capacity in new commodities, opening-up new markets, etc.–have been funded by loans from state or state-regulated banks. For projects initiated or approved by state agencies, loans have often been delivered at interest rates far below those prevailing in domestic or international money-markets (Amsden 1989; Wade 1990; Woo 1991). In the case of South Korea the control of domestic credit and the mediation of foreign credit by the Economic Planning Board, has meant that the state has had until recently almost total control over access to investment capital. Given that the *chaebol* (conglomerates) are structured with low equity/high debt components, most of them until recently have been technically bankrupt at any particular moment. This dependency on state controlled finance has been used to ensure that the *chaebol* follow state policy directives and continue to support the regime. When in 1979 the Yolsan *chaebol* failed in its latter obligations, the Park regime blocked further credit and the company collapsed (Cumings 1987:74).

Performance Standards

Delivering subsidized capital to private companies seeking to expand or re-orient their operations is nothing new in the annals of state-economy relations. This much has been done by many Western governments–in the form of special development grants, depreciation allowances, start-up costs, often under the auspices of 'regional aid'–for a considerable period. What has been different about the North East Asian cases, however, is that there the state has required recipients to meet certain performance standards. One such measure of corporate performance has been the requirement to export a proportion of output within a specified period of receiving the subsidy. In the case of South Korea since the late 1960s, companies in receipt of subsidized capital have been required to export a minimum of 25 per cent of output, even where the product–for instance paper–was hardly a prime candidate for export potential (Amsden 1989, 1990).

Subjecting companies to performance standards in these ways has helped minimize the possibility that subsidies will result in speculative, non-productive investments or corruption.

Controls on Speculation

Tight controls over the banking and financial systems more generally also has allowed East Asian governments to minimize the flow of funds into short-term speculative investments and hence avoid many of the negativities of 'casino capitalism'. In addition to having the indirect effect of ensuring the flow of domestic investment into manufacturing industry, controls have been necessary to check the possibilities for corruption and misuse of funds that could otherwise arise with state subsidies. On occasion legislation has sometimes been used to serve this purpose as in the South Korean law dating from the early 1960s which forbids the export of sums in excess of the equivalent of one million US dollars, without government permission, on pain of penalties ranging from ten years imprisonment to death (Amsden 1990:22)

Price Controls

In some cases state agencies have intervened to control prices of particular commodities on the domestic market. This has been done either to discourage exploitation in cases of monopolistic supply–as in South Korea (Amsden 1989, 1990)–and/or it has been used to contain prices of basic foodstuffs and hence help deflect upward pressure on wages. Hong Kong is the best example of the latter where the Government, since the 1950s, has organized what has in effect been a cartel to control the price of rice and other basic foodstuffs (Schiffer 1991).

Land, Labour and Collective Consumption

With the exceptions indicated above, Hong Kong and Singapore have not used the policy instruments of the other three political economies: they have not controlled credit or directly subsidized capital, they have not induced new industries, nor have they sought to discipline business. This is not to suggest, however, that they are more market rational than plan rational political economies. On the contrary, they have used public assets as important budgetary tools, and they have provided significant welfare sectors which have subsidized the wage and helped to socially stabilize potentially volatile populations. In the case of Hong Kong, state ownership of land, which has been allocated by the sale of leases, has meant in recent decades that about a third of government revenues have been raised by this means, thus allowing the state to engage in massive welfare expenditure while maintaining low levels of corporate and personal taxation. Central to its welfare expenditures has been the provision of a heavily subsidized public housing system which now houses about 45 per cent of the population, and hence about 85 per cent of the working class. For a supposed laissez-faire paradise, the Hong Kong Government has intervened substantially in two of the factors of production–land and labour–to the benefit of export competitiveness (via subsidized wages), capital accumulation and its own coffers (Castells *et al.* 1990: Part I; Schiffer 1991). In Singapore, the Central Provident Fund (CPF) has played a similar role to land in Hong Kong. Compulsory employer and employee contributions have resulted in an enforced form of saving that has amassed such a considerable sum that it is now used by the Government as a significant budgetary asset. In some ways the existence of the CPF has been a fulcrum of state economic policy. It has helped fund Asia's most extensive welfare state, which includes the world's largest public housing system;[6] it has allowed the state a high degree of financial stability; and it has allowed it to force up labour costs (by increasing employer contributions) and hence pressure (largely transnational) manufacturing capital into more technology intensive, higher value-added forms of production (Lim 1983; Castells *et al.* 1990: Part II).

Labour Repression

Central to the plan rational project in East Asia has been the containment and often repression of popular forces, particularly organized labour (Deyo 1989; Castells 1992). Beginning with Japan in the late 1940s and early 1950s, where socialist-inspired trade unions were neutralized to be replaced by more compliant company unions, through to the imprisonment (and reputed torture) of supposedly 'Marxist' social workers in Singapore in 1987, the East Asian governments have consistently operated to exclude popular participation in economic and political decision-making from the development agenda. In some cases repression has been direct and brutal. In South Korea, for instance, responsibility for labour relations lies not with a government ministry, but with the police and the (Korean) Central Intelligence Agency (Amsden 1989). In some instances these agencies have responded to opposition by murder and assassination as during the infamous Kwangju uprising of 1980. In more recent years new forms of trade union organization have emerged in South Korea and Taiwan (Asia Monitor Resources Center 1988; Ho 1990), and these are now merging with democratic impulses at the level of the state, but the fact remains that political exclusion and the neutralization of popular forces has been a common feature of all the societies under discussion.

This list of elements that have composed the plan rational project in the various East Asian political economies clearly indicates that there has been far more to their success than can be encompassed by even the more sophisticated, 'simulated free market' (Wade 1990) versions of neo-classical theory. Given the substantial body of scholarship referred to earlier, it is now patently transparent that neo-classical accounts have simply ignored a substantial part of the empirical record on East Asian economic transformation. In short, such accounts appear to have been wrong. To continue to propagate them is to continue to contribute to an ideological fiction.

Before moving to examine the reasons why East Asian states have operated in the way that they have, it is important to mark here the 'dark side' of this project. Whereas plan rationality in Western Europe (see Figure 5.1) has been tempered by victories in working and living conditions and welfare provision won through decades of working class and other popular struggles, the benefits of such struggles do not appear to be a significant feature of the East Asian route to the modern industrial world.

As I have already indicated, while the East Asian societies under discussion have at various moments been the sites of popular mobilization, these have not, as yet, ensured democratic state forms. Even in Japan, which Johnson (1982) has categorized as 'soft authoritarian', one party rule has existed since the late 1940s; and the recent democratic experiments in South Korea and Taiwan (in the latter case after thirty-nine years of martial law) seem largely cosmetic in nature. Furthermore, while these political economies have delivered genuine improvements to the living standards of their populations and for a significant period less income inequality that many of their Western counterparts (Castells 1992), they have brought with them working and living conditions that appear particularly oppressive. Thus one of the 'downsides' of Japanese affluence has been the continuation of long working weeks and restricted leisure periods. The average Japanese work year of 2,168 hours has hardly changed since the mid-1970s and continues to be 200 to 500 hours more than the rest of the industrial world. Furthermore, overtime has increased since the mid-1980s and annual paid leave in Japan averages only nine days compared with nineteen in the United States, twenty-four in Britain, twenty-six in France and twenty-nine in the former West Germany. This work schedule, coupled with the general tensions and pressures of life in Japanese cities, has resulted in extraordinary increases in stress-related health problems such as high blood pressure and nervous disorders (from 38 per thousand people in 1955 to 145 per thousand in 1985). Japanese business has responded to the problem not by reducing the working week, but by commodified solutions such as special kinds of chewing gum, meditation chambers and 'refresh capsules' which allow immersion in the sounds of 'murmuring brooks, singing birds and gently breaking waves' (McCormack 1991:122–3).

Conditions in the four NICs, with the possible exception of Singapore, are probably much worse than in Japan. In Hong Kong, for instance, a fifty-six hour working week with seven days paid holiday a year is the norm. Additionally, while applauding the state's investment in public housing, its land policy has rendered land for public development an artificially scarce commodity. The consequence of this is that the bulk of the population live in the sky (typically in thirty to fifty storey blocks) in glorified closets of an average space allocation of 3.3 square metres per person on estates with staggeringly high internal and external population densities (Henderson 1991). Enormous social and sexual privations must result from such living conditions.

So, while the plan rational project in East Asia has been enormously successful in creating rapid economic growth and substantial material benefits for the population, in the case of some of the NICs it has brought with it working and to some extent living conditions that would not have been out of place in Engels' Manchester. It has also brought with it centralized, authoritarian and often repressive state forms.

It seems clear that the development model pioneered by Japan and reproduced via a number of mediations by the NICs has involved as a central component, an authoritarian state, irrespective of whether that state has been democratic in form, as it has in Singapore and Japan itself. In all of these Asian cases, the state has been able to develop a high degree of autonomy from economic interests and from civil society more generally. In Japan this was achieved as a consequence of the Meiji Restoration of the 1860s when the putsch allowed the new state to draw clear of the landowning-based constraints of the Shogunates and subsequently itself induce an industrial capitalist class which became its principal social base (Moulder 1977; Morishima 1982). In Korea and Taiwan, state autonomy was partly a result of the elimination of the large landowning class, first by the Japanese during the colonial period (1895–1945 in Taiwan; 1910–45 in Korea), and subsequently by the land reforms organized by the United States Government and the Rhee regime in South Korea and the Chiang regime in Taiwan (both during the 1950s). Additionally in South Korea the state was militarized subsequent to the Park-led coup of 1961; and in Taiwan the Kuomintang government which occupied the island in the 1940s not only held it under marshal law (until 1988) but was an ethnically (though not racially) alien regime. This contributed to its isolation from indigenous social forces to which it otherwise might have needed to respond (Koo and Kim 1992; Amsden 1979, 1985). In the case of Hong Kong, no landowning class of any significance predated British occupation in 1841, and the colonial regime's encouragement of commerce and subsequently industry, created a capitalist class that has generally seen its interests as consistent with those of the regime. The racially alien and colonial character of the regime has also contributed to its isolation from internal political pressure. When Singapore was expelled from the Malaysian Federation in 1965, the People's Action Party (PAP) government, as with Hong Kong's colonial regime, had no landowning class of significance capable of constraining or derailing its activities. While an indigenous commercial class existed as a consequence of the country's entrepôt function, industrial capitalism was not an indigenous phenomenon, but rather became a product of foreign direct investment. While the transnationals clearly had an interest in political stability and in state policies that did not disrupt their activities, they were not concerned with the internal political and economic dynamics of the country in the way that an indigenous industrial capitalist class would have been.

I have already argued that a *sine qua non* of the plan rational project in East Asia has been the neutralization of working class and popular forces generally, by a combination of repression, fragmentation (such as in Hong Kong) and incorporation. This, coupled with the elimination or incorporation of landowning and capitalist classes, has ensured that, perhaps unique in the developing world, the East Asian NICs, and Japan before them, have developed political economies in which their respective states have had high levels of structural autonomy. Such levels of autonomy would have been inconceivable had their routes to the modern world been forged by popular struggles from which democratic state forms could have arisen as in the 'classic' cases of France, England and the United States (Moore 1966). History, then, has provided initially Japan, but particularly the NICs, with the structural space in which authoritarian states have been able to shoulder the responsibility for development. Without this room for manœuvre, it is difficult to imagine how big business could have been disciplined in the way of a Japan, a Korea or a Taiwan; or how, in the case of Hong Kong, business would have been allowed to 'go on a permanent rampage, 24 hours a day, 365 days a year' (Halliday 1974:94).

While centralized, authoritarian (and in South Korea and Taiwan, military) regimes seem to have been essential to the purer plan rational models, this experience raises the question as to whether they are likely to be essential to other East Asian experiments with plan rationalism. Of particular interest here is Malaysia, which in recent years has begun to absorb elements of the Japan-NIC model (Lubeck 1992). Unlike Japan and the NICs, however, history has not left the Malaysian state with a high degree of autonomy from indigenous social forces. Partly as a result of this, it has emerged as a democracy in both form and to some extent, content. Given that, unlike the others, it is racially heterogeneous, if Malaysia can still attain the level of development of the NICs, then with hindsight, authoritarian state forms may not appear to have been so central to the East Asian plan rational project as currently seems to have been the case.

Why Plan Rational Political Economies?

Lying behind our discussion thus far has been an important question: why should East Asian states have engaged in plan rational development strategies rather than leaving economic growth to the market as their Western advisors from the US Government and various international agencies advocated? The answer here seems to be associated with their very autonomy from powerful economic interests and popular forces. I argued earlier that the structural autonomy that East Asian states have enjoyed was central to their ability to build political economies which involved not merely partnerships between state and business in the forging of corporate competitiveness, but partnerships in which the state was the senior partner. The downside of this structural autonomy, however, was that these states–especially the NICs–were confronted with particular legitimation problems which derived precisely from their relative lack of integration with their respective civil societies.

There was in addition a crucial exogenous factor that compounded the endogenously derived legitimation problems that the respective regimes confronted. The East Asian states in question were in many ways products of the Cold War. They were formed (in the Hong Kong case re-formed after the Japanese occupation of 1941–45) in a geo-political context where they were the front line in the US-dominated struggle to contain the spread of 'communism' and as such, for ideological reasons, had to be built as showcases for capitalism in the developing world. Furthermore, they were societies that had either been devastated by war (as in the cases of Japan and South Korea), or had been subject to the upheavals and social transformation associated with massive and rapid immigration (Taiwan, but particularly Hong Kong), or, as with Singapore, had been cast adrift (in 1965) as a largely Chinese enclave in a hostile Malaysian/ Indonesian sea. Under such circumstances the consent, if not the positive support of their respective civil societies was essential, and it was secured, as Castells (1992) has suggested, by 'the political economy of survival'.

The survival of the respective regimes, while secured in part by the repression of popular forces, ultimately depended on their ability to legitimate their rule. The key to legitimation in all cases seems to have been the delivery of rapid economic growth and with it rising living standards. This is not to say that the delivery of national economic health is not important to the legitimation of all regimes, democratic or authoritarian, but it is to say that the East Asian states were confronted with legitimation problems that were highly problematic precisely because they arose from the articulation of processes derived from world-system factors–particularly inter-state rivalry–with those that emerged from the contradictory moments of their formation as states. As such, economic development could not be left entirely to the hit and miss of market forces. Each state, drawing on their different histories and traditions, inevitably went about the task of building legitimation through economic growth in different ways. With Japan as the standard bearer, South Korea and Taiwan went about the task by neutralizing labour and 'guiding' the strategies of the corporate sector in the interests of national economic goals. In both these cases the regimes accomplished their tasks partly by an application of what are often regarded as 'socialist' planning mechanisms: multi-year plans in which specific sectors were targeted, and significant state equity participation, especially in Taiwan.[7] Hong Kong and Singapore, on the other hand, acted not on companies directly, but indirectly through labour (and in the case of Hong Kong, land) markets, and in so doing invested substantially in welfare, and particularly public housing systems. In the case of Hong Kong where the personal security of an immigrant population could not be delivered through citizenship of a sovereign state, entrance into the public housing system became its functional equivalent and hence a central mechanism through which the colonial regime established its legitimacy (Castells *et al.* 1990: Part I; Ho 1989).

The emergence of plan rational development strategies in East Asia was not, then, a product of pragmatic experimentation, nor was it a product of any particular ideological project. It was rather a response to the circumstances of the historical conjuncture in which the various states were created, given that those states sought an essentially autocratic route to the retention of political power.

RATHER THAN A CONCLUSION

A prolegomenon by definition cannot have a conclusion, but rather needs an assessment of the stage that has been reached and a guide to the road ahead. Accordingly this is the procedure I follow here.

While it is clear that the economic transformation of Japan and the East Asian NICs can only be fully grasped by focusing on the articulation of historically and regionally specific world-system factors with internal processes unique to the particular countries themselves, it is also clear that in any attempt to weight the significance of the various determinants, the efficient working of supposedly free markets cannot be privileged over the others. Indeed I have argued that if any such privilege is to be accorded, it has to be to the actions of the national states themselves. If this is the case then at least two further questions are raised. First, given that each state went about building plan rational political economies in different ways, using different historically- and culturally-derived resources, what are the particular specificities of each case such that they still have had sufficient in common to deliver similar economic outcomes; and second, to what extent are the particular versions of plan rationality that have served these economies well in the past, likely to have significance in the future? While these questions point to the need for a rather different contribution to that offered here, some indications at least can be advanced.

With regard to the first question, there is space here to address only one of the many issues. While I have argued for the commonalities associated with East Asian plan rationalism, I have also indicated that the region's route to the modern world has involved national variations in the state-economy relation. One of these variations has been in the form that business organization has taken. In the cases of Japan and South Korea, their economies have been organized on the basis of concentrated ownership and control by diversified conglomerates. While similar organizations have a significant presence in the Taiwanese economy, its dynamism has been associated in part with small- and medium-scale firms embedded in extensive subcontracting networks. The role of such firms and networks has been even more pronounced in the case of Hong Kong. While in all these cases domestic capital has predominated, in the case of Singapore, economic success has been forged from the relation of the state with large-scale transnational capital. While the form of business organization itself, then, may have had important implications for the specificity of state-economy relations, it may be, as Richard Whitley (1991, 1992) has argued, that it is the nature of the institutional matrix–the historically constructed cultural, organizational, financial and political crucible–from which paths to industrial capitalism in each case emerge, that is the key to the matter. While having some sympathy with Whitley's 'business systems' approach, I feel that it threatens to degenerate into relativism such that the various elements of the crucible are assumed to be of equal determinant strengths. In my view it is quite possible to conceive of an institutional matrix in which some institutions have a more determinant role than others. In the East Asian cases as I have argued, the state in its various mediations has played precisely this determinant role. But these are issues of some importance, both for scientific reasons and for their policy implications. As such they demand considerably more empirical and theoretical labour than they have yet received or can be provided here.

While versions of plan rationality have been at the basis of East Asian economic success, it is not clear that the same versions, or indeed plan rationality in general, will continue to hold sway in the future. There are a number of reasons for this. Among them is the changing role of the East Asian NICs in the world economy which may result in a weakening of the state's ability to control domestic capital. There are a number of considerations here. With regard to South Korea and Taiwan, the growing internationalization of their economies may lead to a greater autonomy of certain sections of private capital from state influence. There are at least two significant developments here: (a) the increasing dependency of Taiwanese manufacturing companies on subcontracting networks ('commodity chains') which stretch across the Pacific to the United States at one polarity and China at the other (Gereffi and Korzeniewicz 1990; Gereffi 1992); and (b) the internationalization of the Taiwanese and South Korean economies by virtue of increasing direct investment in East Asia generally (mainly Taiwanese companies), but particularly in the core economies of North America and the European Community. In the latter case it is the South Korean *chaebol* that are at the forefront of development. Their growing economic power in the domestic economy and internationally may lead to assertions of independence from state influence. Indeed, it appears that the Roh regime is aware of this possibility and is actively seeking to bolster small and medium business as a counterweight to the power of the *chaebol* (Koo and Kim 1992).

The additional factor that may have a significant bearing on state-economy relations in South Korea and Taiwan are their experiments with democratic state forms. While in neither case do these amount to more than a cosmetic development, it is possible that internal tensions may propel political transformation in a more genuinely democratic direction. With regard to South Korea I am thinking here of the impact of the end of 'Kim Il Sung-ism' should North Korea implode in the way of other state socialist societies; and in Taiwan, the activities of the Democratic Progress Party (DPP) on the one hand, with its demands for Taiwanese independence, and the smaller socialist Labour and Workers Parties on the other, may yet fuel democratic transformation (Ho 1990). I suspect that the most likely possibility, however, is that both countries will travel the Japanese road, from a 'hard' to a 'soft' authoritarian system of government (Johnson 1987), hence allowing the essentials of a plan rational political economy to remain intact.

The Hong Kong political economy has been the least plan rational of those under discussion. Even so, state-economy relations are likely to undergo a substantial transformation in the next few years. The reason for this is the increasing inter-penetration of Hong Kong capitalism with China's market Stalinism. Already 60 per cent of total foreign investment in China (nearly 90 per cent in South China's Guangdong Province) comes from Hong Kong firms, while Chinese state enterprises are now the second most important foreign investor (after Japan) in Hong Kong (Henderson 1991). Additionally, growing demands by the Chinese Government that it be consulted (in effect given right of veto) over major policy and investment decisions of the colonial state are merely a precursor for a new state-economy relation that will emerge after Hong Kong is politically reabsorbed by China in 1997. Unless there are significant shifts in power relations in China before the end of the century, given the weakness of the democracy movement in Hong Kong, some version of market Stalinism seems on the cards for the territory. While market Stalinism is defintely a 'planned' political economy, it can hardly be regarded as 'plan rational'.

Of all the East Asian NICs, Singapore seems the most likely to continue to pursue its current plan rational strategies. 'Lee Kwan Yewism' seems to be alive and well even without Lee's direct hand on the tiller. Although internal opposition to the Peoples Action Party's (PAP) 'democratic authoritarianism' is growing, it remains a marginal force. Additionally, the Government's attempts to pressure transnationals (by forcing up labour costs) to invest in more technology-intensive, higher value-added activities, appear to have succeeded. Singapore is now well advanced in its transition to a post-industrial society (Castells *et al.* 1990: Part II). Furthermore, the growing unease of small- and medium-scale business (which has helped fuel political opposition) with the consequences for them of the state-transnationals *rapprochement* (particularly the shortages of low cost labour under the very tight migration regime operated by the Government) has been reduced, if not yet resolved, by the Government's orchestration of the Singapore–Johor (Malaysia)–Riau (Indonesia) 'growth triangle', which has allowed Singaporean firms to export capital to the country's neighbours and thus put to work there, rather than in Singapore, their cheap, underemployed (and non-Chinese) labour (Parsonage 1992).

These then are among the issues that would have to be addressed in any attempt to develop a theory of state-economy relations in East Asia. The East Asian route to the industrial capitalist world has been very different from those traversed by the countries of Western Europe and North America, or indeed by the 'late industrializing' countries of Latin America. Perhaps the most significant indication of that difference has been the extent of state control and influence over the economy, without however, taking on board the trappings of socialism or social democracy (with the partial exception of Singapore). Work on the specificities of East Asian states and the particular versions of plan rationalism that they have engendered is an important task which still lies ahead of us. It is also a task of some urgency if we wish to identify the elements of East Asian plan rationalism that might be 'exportable' to other societies–'developing' and 'developed'–in sufficient time to help save them from relative economic extinction.

NOTES

1 The former state socialist societies of Central and Eastern Europe are being bombarded by policy advice that advocates the wholesale privatization of enterprises, land and many services, and a rapid switch to free market procedures. This advice is given without bothering to mention that some of the world's most successful economies, such as Japan and the East Asian NICs, do not operate in any direct or simple way on the basis of free market principles. Even when advisors are aware of a literature which questions the neo-classical account of East Asian development, they often and deliberately choose to ignore it.

2 Bauer and Yamey's (1957) work was an attempt to rebut that of Prebisch and the United Nations Commission on Latin America (ECLA), which itself, at least in Prebisch's hands, had emerged from a critique of the neo-classical paradigm, both in theory and in terms of its policy derivatives and practical consequences (see Hunt 1989:293–8).

3 Chalmers Johnson, commenting on Milton Friedman's claim (in a United States television programme) that 'the image of the Japanese having had an industrial policy which explains their success is a myth' notes that 'Friedman does not read Japanese and has made no study of the Japanese economy. He does not have to because he is speaking as one of the world's most eminent economic theorists' (Johnson 1988:80).

4 There are two peculiarities with Porter's (1990a) discussion of East Asia, which may indicate deeper problems with his account than their mere passing significance would suggest. First, his account of South Korea makes no reference to Alice Amsden's (1989) seminal work on the role of the state in that country's industrialization. Though his own book was probably finished before Amsden's was published, this is no resolution of the problem, as at the time when their research was being conducted and manuscripts written, they were colleagues together at Harvard Business School! Second, while Singapore was originally part of Porter's research programme, no more than a few brief comments on that country appear in his book. Given that Porter's thesis is rooted in an argument about intense competition among domestic firms, and that about 70 per cent of

the Singaporean economy is foreign-owned (Mirza 1986), therein may lie the explanation for this omission.

5 Johnson has argued that there is a systematic discrimination in the economics departments of US universities against the empirical study of the Japanese and similar economies.

> Members of the senior economics faculty prefer to study theory; they warn members of their departments, particularly those who do not have tenure, not to undertake applied or comparative research since it might reveal the large number of anomalies that have developed in American-oriented theory.
>
> (Johnson 1988:79)

Scottish business economist, Neil Kay, puts the problem more bluntly. A training in mainstream economics, he suggests, works to filter out

> bright deviant students who regard neoclassical theory as irrelevant or unrealistic. Once started the process is depressingly self-perpetuating; the individual intent on pursuing a career as an economist has to be bright enough to understand the abstract ramifications of neoclassical theory and dumb enough to have faith in them.
>
> (Kay 1984:187–8)

6 Singapore has the largest public housing system in proportional terms. Hong Kong has the world's second largest public housing system, though in terms of numbers housed, it is larger than that of Singapore.

7 It is possible that the 'socialist' form of aspects of state planning in Taiwan may have derived in part from the fact that in the early years of the Kuomintang's rule in China itself (through to the late 1920s), leading elements in the party were enamoured of developments in the Soviet Union. Sun Yat Sen, for instance, conducted a long correspondence with Lenin and from 1918 until his own death, had Soviet advisors (Seagrave 1984).

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6

ASEAN ECONOMIES: CONTINUING DYNAMIC GROWTH IN THE 1990s

John Wong

ASEAN IN THE DYNAMIC PACIFIC ASIAN REGION

It is commonplace today to talk of the Pacific Asia region as the world's most successful and dynamic economic group. The six ASEAN economies of Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand constitute a distinctive component of the Pacific Asia region.

With the exception of Singapore the ASEAN economies are endowed with a wide range of natural resources, both renewable and non-renewable. Together the ASEAN countries annually export the bulk of the world's rubber, palm oil and coconut products, in addition to a significant amount of other commodities of mineral and agricultural origin, including petroleum and natural gas, and rice (Figure 1.2). The continuing export of these geographically-specific commodities in the past provided the ASEAN economies' main source of capital formation for their economic growth, particularly in the 1970s when the ASEAN economies were riding on the back of the raw materials boom. But their economic growth plummeted in the early part of the 1980s due to the general slump of the world commodity markets. Aggravated by gross economic mismanagement, the Philippine economy had even plunged into negative growth.

The recession in the 1980s prompted the ASEAN economies to undertake structural adjustments and to step up efforts to expand their non-traditional exports. Most ASEAN economies have since undergone profound changes in their export structure, which are marked by the decline in the relative share for primary commodities and mineral fuels, and the corresponding rise in the share for manufactured products. The changes in the export structure are a direct consequence of the structural transformation of the ASEAN economies. ASEAN's manufacturing sectors have also grown remarkably, from 8 per cent of GDP in 1965 to 19 per cent in 1988 for Indonesia; 9 per cent to 23 per cent for Malaysia; 20 per cent to 25 per cent for the Philippines, 15 per cent to 30 per cent for Singapore; and 14 per cent to 24 per cent for Thailand. In fact, with the exception of Brunei and Indonesia, manufactured exports have overtaken primary exports as the main engine of ASEAN's economic growth. It may further be argued that the recent spurt of economic growth in most ASEAN economies was due more to the successful transition of their manufacturing sector from import substitution to export orientation than to the improvement of primary commodity prices.

Accordingly the ASEAN economies are entering the 1990s with renewed vigour. Furthermore, both the institutional conditions and the external and internal economic forces for further economic growth in the 1990s look generally more favourable for ASEAN than for the other components of the Pacific Asia region. Thus ASEAN appears set to become the most dynamic component of this dynamic region.

THE CONDITIONS FOR SUSTAINING HIGH GROWTH

Broadly speaking, the ASEAN economies started their modern economic growth processes in the early 1960s and built up the momentum in the 1970s. The slow growth period of the 1980s was, in retrospect, the important phase for consolidation when the ASEAN economies were undergoing painful but crucial structural adjustment, which in turn provided the groundwork for their recent spurt of high growth. The sources of ASEAN's past and present economic growth can be traced to the common strategies and some broadly similar structural factors.

In terms of strategies, the salient common feature of all the ASEAN economies is their outward orientation, which has enabled them to successfully harness the mechanism of international trade for their economic growth. The ASEAN economies are expected to maintain such outward-looking strategies regardless of the emerging international economic environment.

For the outward-oriented strategies to succeed, the endogenous economic preconditions must also be present. For most ASEAN economies the single most important 'real' internal economic factor for their economic growth has been their relatively high levels of savings and investment. As shown in Table 6.1 most ASEAN economies have committed a high proportion of their GDP to domestic investment, ranging from 21 per cent for Malaysia to 41 per cent for Singapore during the 1970s, the critical period of industrial take-off. Except for the Philippines, such high levels of domestic investment were largely maintained during the 1980s. This crucial macroeconomic parameter has worked on the ASEAN economies much in the manner of a 'virtuous circle' of growth: high rates of investment induce high rates of trade growth, and then high GDP growth, high savings, and finally high investment again.

Table 6.1 ASEAN: savings and investment as percentages of GDP

	Gross domestic investment		*Gross domestic savings*	
	Average 1971–80	*Average 1981–9*	*Average 1971–80*	*Average 1981–9*
Indonesia	24.8	28.8	22.6	30.5
Malaysia	20.5	30.3	30.4	33.0
Philippines	26.7	20.2	23.4	19.3
Singapore	41.1	42.8	30.0	41.8
Thailand	25.9	25.4	21.5	23.0

Source: Asian Development Bank (1990) *Asian Development Out-Look,* Manila

Not all gross domestic investment in the ASEAN economies was met by gross domestic savings, especially in their initial phase of industrialization when they were still short of capital. Where the difference between domestic investment and domestic savings existed, the 'resource gap' was typically filled by external financing in the form of either foreign investment or external borrowing. By virtue of their outward-looking development strategies, most ASEAN economies were able to attract the required inflow of foreign financial resources.

In particular, foreign investment has played a pivotal role in the development of ASEAN. Initially Western capital dominated the region's foreign investment scene, but since the mid-1970s Japan has become the largest single investor. In recent years, ASEAN has witnessed a new but no less significant development, associated with the increasing influx of foreign capital emanating from the Asian NICs, as can be seen from Table 6.2. Driven by higher wages and declining comparative advantage, manufacturers from East Asia have been moving their labour-intensive production bases to ASEAN. Such trends will clearly continue in the 1990s. On account of the member

Table 6.2 ASEAN: investment approvals, 1988

To	*Thailand*[1]		*Philippines*[2]		*Malaysia*[3]		*Indonesia*[4]	
From	*US$ million*	*% change*	*US$ million*	*% change*	*US$ million*	*% change*	*US$ million*	*% change*
Japan	3,063	217	95	229	214	134	225	−56
Hong Kong	446	266	27	−3	50	350	232	90
Korea	106	742	2	100	9	1,013	209	1,249
Singapore	275	330	2	166	66	22	255	1,876
Taipei, China	850	184	109	1,109	147	212	923	11,584
Asia								
Total	5,019	221	253	222	508	134	1,844	175
World	6,225	220	452	171	768	158	4,426	257

Sources: Government of Malaysia, Malaysian Industrial Development Authority (1989) *Statistics of the Manufacturing Sector,* Kuala Lumpur; Government of Indonesia, Central Bureau of Statistics (1989); *Monthly Statistical Bulletin,* Jakarta

Notes:
1 Total foreign investment in projects receiving Board of Investment privileges.
2 Equity investments approved by the Board of Investments.
3 Foreign equity in manufacturing projects approved by the Malaysian Industrial Development Authority.
4 Total foreign capital in projects approved by BKPM: excludes investment in oil, financial sectors.

states' open economic structures coupled with continuing political and social stability, it is likely that ASEAN will remain a major recipient of foreign capital. In many ASEAN countries, foreign capital is now sought not so much for filling the savings-investment gap but rather as a vehicle for the transfer of technology and for the development of the export markets. In this way, external linkages will continue to operate as a significant force to spearhead ASEAN economic growth in the 1990s.

Beyond such economic factors, an important exogenous explanation of the successful economic growth of the ASEAN countries can be attributed to their unique growth-inducing institutional framework. The political and social institutions have fostered a long period of peace and social stability, which is indispensable for business expansion and foreign investment. ASEAN's ethnic and cultural heterogeneity has not produced such social strife as to destabilize the process of economic growth; this is principally due to the pragmatic policies of the ASEAN government.

Indeed, the governments of the ASEAN countries have been conspicuously successful in minimizing political confrontation and social contention by channelling nationalism and social purposes into productive economic pursuits. Economic growth is thus built into the political system, with the political leadership strongly committed to economic growth, which in turn generates the material foundation for continuing social stability. There is every indication that these favourable political and social climates will persist through the 1990s.

THE UNCERTAIN EXTERNAL ENVIRONMENT

It has become sufficiently clear that the 1990s is going to be a decade of great uncertainty for world economic growth. Some ASEAN economies may well experience a rough passage in this transitional period. To the extent that export expansion has now been the main driving force behind the economic growth of ASEAN, its overall economic growth engine has also become heavily dependent on the ebb and flow of international capitalism. Plagued by persistent structural problems, industrial economies have allowed protectionism to grow and have increasingly taken to more restrictive trade practices. A case in point is the potential loss of the GSP (generalized system of preferences) benefits for some ASEAN countries–Singapore has already lost its GSP status in the United States market.

In the 1990s, the ground rules for free (or freer) international trade, on which all the Pacific Asian economies had thrived in the past, will certainly be changed. Thus, attempts by the United States to correct its structural imbalances associated with its twin deficits will curtail the market shares for the manufactured exports from ASEAN. In the short run, it would not be easy for ASEAN exporters to turn to their next important market, the EC, which is moving towards a single market during 1992.

The dramatic political and social transformation that is going on in the Soviet Union and Eastern Europe adds further volatility to the world economy. Such a momentous event could lead to a new global order in the long run, with profound effects on the world's existing patterns of trade and investment. To take a positive scenario, the re-integration of the European socialist economies with the world capitalist system may well open a new source of global economic growth with beneficial spillovers for all. In the short run, however, the opening-up of Eastern Europe could well distract attention from ASEAN with possible diversion of Western capital and aid. The increasing Pacific orientation on the part of the former Soviet economy, such as its move to develop closer ties with Japan and South Korea to exploit natural resources in Siberia, could also have important implications for the primary exporting ASEAN economies. Suffice it to say that ASEAN will have to face new competitors for their markets and for capital in the 1990s.

There is a great deal of uncertainty as to how the international economy in the 1990s will eventually shape up. It is also not certain as to the actual balance of costs and benefits to a particular ASEAN economy from a particular external shock, since much depends on the structure and orientation of that economy. What is certain is that all the ASEAN economies are small on the scale of the global economy, and as such they are essentially 'price takers' in the game. Thus, how the individual ASEAN economies will actually fare in the 1990s depends crucially on how they respond to external challenges and opportunities.

DOMESTIC RESPONSES

Most ASEAN economies are still afflicted with, to varying degrees, a number of problems related to debt, falling commodity prices, large external imbalances, and serious structural rigidities, which must be tackled before the ASEAN economies can respond effectively to the external challenges of a deteriorating international economic environment. This means that the ASEAN economies must accelerate their process of structural adjustment. Measures must be taken or stepped up to improve competitiveness and efficiency in their manufacturing sectors. Domestic markets should be further liberalized and open policies with regard to foreign investment be maintained. Suffice it to say that for a dynamic economy such structural adjustment is actually an integral part of its growth process. But the nature of structural adjustment will vary for the individual ASEAN economies on account of their different needs and priorities.

Brunei

For small, oil-rich Brunei, with the highest per capita income in the region, there is little scope or need for economic restructuring in the foreseeable future. Since 99 per cent of its export earnings come from oil and gas, Brunei is poised to reap further windfall gain from rising oil prices in the coming years.

Indonesia

With a population of 180 million, Indonesia is the largest ASEAN country and is also the least industrialized. At the peak of the second world oil crisis, Indonesia derived 82 per cent of its total export earnings and 70 per cent of the government revenue from oil and gas. With such over-dependence on oil, the Indonesian economy came to grief once the oil prices collapsed in the mid-1980s. Hence it had to go through a painful process of low growth and stringent retrenchment.

The World Bank had singled out Indonesia as one of the few primary exporting economies which have undergone successful structural adjustment towards a more diversified source of economic growth. By 1989 the share of oil and gas in Indonesia's exports had dropped to 39 per cent while manufactured exports had risen to 48 per cent. Boosted by several rounds of currency depreciation and liberalization of foreign investment rules and import controls, Indonesia's manufacturing sector, led by plywood, textiles and footwear, has grown rapidly in recent years. This, in turn, has brought the Indonesian economy back to the high-growth track, with an average rate of 7.3 per cent between 1989 and 1991.

By and large, the Indonesian government now appears to have got its policy priority right. It has obviously learnt its past lesson of the peril of relying on short-term capital gains–what the economist calls the 'Dutch disease'. Should there be another round of oil price rises in the 1990s, Indonesia must stand fast on its export-oriented industrialization strategy, which offers not only a more viable long-term course of economic development but also the most effective means of solving its problem of massive rural unemployment.

Malaysia

Though a much smaller country than Indonesia in terms of population, Malaysia has developed a larger export trade than that of Indonesia. Malaysia's export base is also much more diversified, comprising a wider range of primary commodities as well as manufactured products. Further, manufactured exports have now overtaken primary exports in terms of volume.

The Malaysian economy has staged a strong recovery from the recession of the mid-1980s, with growth of 8.5 per cent in 1989 and 9 per cent in 1990. The challenge for Malaysia now is to sustain the boom through the 1990s. Obviously, the Malaysian economy should remain open to foreign investment; but the most crucial of all is that the government should continue with its pro-growth as opposed to pro-distribution policy, particularly with regard to the redistribution of equity ownership. The process of privatization should also be stepped up while greater industrial productivity and efficiency be promoted. If the overall economic policy environment in Malaysia continues to be pragmatic, Malaysia would once again be the 'lucky country' in the region.

Philippines

The Philippines economy plunged to negative growth in the wake of the second world oil crisis. The economic decline was precipitated by falling commodity prices on the one hand and by gross mismanagement of the economy by the Marcos government on the other. The economy started to recover in 1987, achieving 5.7 per cent growth in 1989. However, the recent Gulf crisis with its oil price increases undermined the recovery of the Philippine economy. In 1991 there was zero growth in real terms and inflation reached 12.6 per cent, the highest in the Asia-Pacific region.

The prospects of the Philippine economy in the next few years are clouded with uncertainty. Its manufacturing sector continues to be saddled with structural malaise, and its basic infrastructure such as power, transport and communications is in a dilapidated state. Continuing political and social instability have hampered efforts for structural reforms and policy remedies. As the centre remains inept, regionalism has grown and a number of provincial centres have started to bypass Manila for their separate development activities. Overall, there is a possibility for the Philippines to become a laggard in the fast-growing ASEAN region.

Singapore

The Singapore economy, following the implementation of a series of corrective policies of wage and cost-cutting, has regained its competitiveness and recovered from its severe recession of the mid-1980s. Fuelled by rising foreign investment and the rapid export growth of goods and services, the Singapore economy resumed high rates of growth towards the end of the 1980s (11 per cent in 1988 and 9.2 per cent in 1989) and these seem set to continue in the 1990s despite the looming world recession.

Like the other Asian NICs, the prospects for Singapore to sustain high growth through the 1990s are now clouded by the emerging recession in the United States, as all the NICs are heavily dependent on the American market for their manufactured exports. However, the economy is more broad-based and its source of growth more diversified than the other NICs. With its efficient infrastructure and financial services, Singapore can also turn to the ASEAN region as an additional source of growth. The prospective economic boom in Indonesia and Malaysia would carry beneficial spillover to the Singapore economy.

Chronic labour shortages remain the Achilles' heel of the Singapore economy. This by itself should have prompted the economy to undergo vigorous restructuring towards more capital-intensive and higher value-added activities. But the process of industrial upgrading in Singapore, as in the other NICs, has proved to be an immensely difficult undertaking. The problem in Singapore is further aggravated by the emigration of professional manpower and the scarcity of entrepreneurial talent. But under strong external and internal pressures, the Singapore economy is nevertheless moving along the path of adjustment.

Thailand

The Thai economy has been the 'star performer' in the whole region in recent years. Having achieved an average of 6 per cent growth between 1980 and 1988 the Thai economy then moved into double digit growth, averaging 11.1 per cent between 1988 and 1990. The recent dynamic growth was spearheaded mainly by private sector initiative and buoyed by an unprecedented foreign investment boom.

For decades, rice was the leading export item in Thailand, but its position was first taken over by tourist earnings and now by manufactured exports, which comprise a broad range-of commodities including textiles and garments, computer parts, jewellery and canned foods. Starting off as an agriculture-based economy, Thailand in recent years has built up a vibrant, export-oriented manufacturing sector to become the mainstay of its economy. The manufacturing base is expected to continue deepening and broadening over the next few years by expanding more downstream and higher value-added activities. The long-term prospects for the Thai economy continue to be promising. The Thai economy was badly affected by the past two world oil crises. But the Gulf crisis did not pose a significant threat to the economy, thanks to its newly-gained resilience. Thailand, along with Malaysia, is predicted to become a new NIC by the end of the 1990s.

In the short run, the Thai economy has to come to grips with a number of constraints, the foremost of which are the acute infrastructural bottleneck in terms of inadequate transport and communications facilities and power shortages, and the scarcity of skilled labour and professional manpower. Rapid economic growth in recent years has also aggravated regional imbalances and widened the urban-rural income gaps, thus generating potential political and social tension. This may in turn create an 'institutional bottleneck' for its future economic growth.

For the ASEAN region as a whole, the single most important long-term constraint is the shortage of skilled labour. As can be seen from Table 6.3, ASEAN's present level of basic education and literacy rates may be above the average standard of the Third World countries, but they are clearly not adequate for a higher level industrial development. Singapore, Malaysia and Thailand are already experiencing serious high-level labour shortages. In future, as the fertility rates in the ASEAN countries continue to fall as a result of successful economic development and the concomitant social change,

Table 6.3 ASEAN: human resources

	Population (million, 1988)	*Age structure 1988 15–64 years (%)*	*Total fertility rate*		*Life expectancy 1988 (years)*	*Adult literacy rate (%) 1985*	*% of age group enrolled in*				*Government expenditure for education as a % of budget*	
							secondary		*tertiary*			
			1965	*1988*			*1965*	*1987*	*1965*	*1987*	*1972*	*1988*
Indonesia	175	58.9	5.5	3.4	61	74	12	46	7	NA	7.4	10.0
Malaysia	17	58.9	6.3	3.7	70	73	28	59	2	7	23.4	NA
Philippines	60	56.2	6.8	3.8	64	86	41	28	19	38	16.3	15.7
Singapore	2.5	70.8	4.9	1.9	74	86	45	NA	10	NA	15,7	14.4
Thailand	54	61.4	6.3	2.5	65	91	14	28	11	NA	18.7	19.9

Source: World Bank (1990) *World Development Report,* Washington the quality aspects of the labour force will become more crucial. This is an important agenda for all the policy-makers in ASEAN.

THE FLYING GEESE

The emerging international economic environment in the 1990s indeed looks less favourable for all the export-oriented economies. But if the development experience of the Asian economies in the 1980s can serve as a useful guide, the lesson is clear. All economies, to varying degrees, were exposed to the same external economic environment in the 1980s, but only a small number have to achieve creditable growth performance. Thus it is their domestic responses to the external challenges that have been the key to their economic success.

In the 1990s, if the global economy should deteriorate, the ASEAN economies could, to some extent, turn to the Pacific Asian region as a source for their growth. Japanese economists like to portray the pattern of Asian economic growth as a formation of flying geese, with the Japanese economy taking the lead, followed by the NICs, ASEAN and China. The idea implies that all these Asian-Pacific economies share the same common economic destiny. This is increasingly the case, as they have all adopted export-led growth strategies and are all strongly committed to achieve and sustain high economic growth.

Furthermore, the flying geese formation also suggests that these Asian-Pacific economies are interdependent. This has also been the case. Despite their inherent political, social and economic divergencies, this group of economies has become economically more integrated in recent years as a result of greater intra-regional trade and greater intra-regional investment flows, with the forces reinforcing each other. A high level of economic integration has come about not because of any institutional arrangement or any formal regional cooperation framework. Rather, it has been the result of the working of market forces through the operation of shifting comparative advantage within the region. Such trends are expected to continue in the 1990s. In this way, the Pacific Asian region could offer an additional source of growth for all these economies, ASEAN included.

In fact, these Pacific Asian economies together constitute a truly formidable economic entity in terms of population size and natural resource base. The region possesses all the necessary ingredients such as capital, labour, raw materials, technology, and market for maintaining high economic growth not just through the 1990s but into the next century. Hence the notion of the Pacific Century. But in the critical transitional period of the 1990s one can cogently argue that the centre of economic growth within the Pacific Asian region will shift from North East Asia to ASEAN.

7

FOOTPRINTS IN SPACE: SPATIAL RESTRUCTURING IN THE EAST ASIAN NICs 1950–90

Terry G.McGee and George C.S.Lin

INTRODUCTION

We realize that this title may evoke images of astronauts in space, but in fact we are using the phrase in a technical sense which refers to a satellite's electromagnetic web of territorial coverage in which video, audio and data signals can be exchanged. That is to say a space in which transactions and flows of information can be controlled and disseminated. The fact that messages can be transmitted almost instantaneously means that spatial and time barriers are in theory no longer constraints. This term appears to present the most extreme example of the 'annihilation of space through time' or 'time-space convergence' defined by Brunn and Williams (1983) as 'the rate at which places are moving closer together measured by travel time and communication time' (Brunn and Williams 1983:468). It is the central argument of this paper that the considerable success of the East Asian NICs[1] in facilitating the process of 'time-space convergence' has been a crucial component in their process of economic development.

In emphasizing this facet of the development process we are taking up a theme which is quite central to geographical research and which recently has been subject to a considerable amount of 'rethinking'. In particular David Harvey (1989) drawing upon earlier work of Lefebvre (1974) has drawn our attention to the 'spatial practices' that produce space. These are divided into material dimensions such as the physical and material flows that occur in space and across space; representations of space that enable these material dimensions to be understood; and spaces of representation which are mental inventions of space such as utopias. While these latter two dimensions are intriguing from our point of view, it is the material dimensions which are particularly important in the East Asian NICs where the state has used territorial and ideological imperatives as an important part of national control.

The application of spatial practices of the material dimension in the development process affects the flow of objects in space. First, they are concerned with breaking down 'the friction of distance' and reducing transaction costs. Second, this dimension involves the appropriation of space most notably at a national level but internally at every spatial level within a given territory. Third, these spatial practices involve the domination of space by individuals or groups designed to control space in order to reduce the friction of distance. The final aspect relates to the production of space which involves the introduction of transportation and communications and other aspects of the infrastructure which are designed to ensure the successful application of the other spatial practices.[2]

Most studies of the development process see spatial change as being almost entirely the result of structural change in the process of economic development which is conventionally portrayed as being characterized by a decline in the agricultural contribution to GDP, and an increase in the industrial and service sectors leading to a rise in the national income. These changes are associated with declining employment in agriculture and the concomitant spatial shift of people from rural to urban areas until developed countries become highly urbanized. While some attention is paid to the role of transportation and other communication infrastructures in this process, it is most often regarded as a secondary facet of the development process. On the other hand the major thrust of the analyses of development tends to emphasize the considerable increase in the production of value-added goods in both the agricultural and industrial sectors, particularly as they contribute to the growth of national income. With respect to the Asian NICs it is the industrial revolution of the 1960s and 1970s that has been most emphasized. It is not our intention in this chapter to deal with these facets in great detail since they have been the subject of much analysis (see for example Balassa 1981). Table 7.1 sets forth clearly the major differences between the grouping of NICs and the remaining Asian countries in the last three decades. It is clear that the NICs have experienced the most rapid rates of growth of GNP, the most significant shifts from agriculture to non-agriculture and an urban revolution. No other Asian country, not even the emerging NICs of Malaysia and Thailand, comes close to them in emulating this pattern. It is therefore not surprising that

Table 7.1 Selected Asian countries: structural contrasts in distribution of GDP, grouped by urbanization trajectories, 1960–89

	Agriculture			*Industry*			*Manufacturing*			*Service*		
	1960	*1980*	*1989*	*1960*	*1980*	*1989*	*1960*	*1980*	*1989*	*1960*	*1980*	*1989*
Type I												
Japan	13	4	3	45	43	41	33	30	30	42	53	56
Hong Kong	4	2	0	39	31	28	26	26	21	57	67	72
Singapore	4	1	0	18	37	37	12	26	26	78	62	63
Taiwan	28	9	6*	29	46	47*	22	42	39*	43	49	49[1]
Korea Republic	37	16	10	20	39	44	14	28	26	43	45	46
Type II												
Malaysia	36	23	—	18	30	—	9	18	—	46	47	—
Philippines	26	22	24	28	36	33	20	24	22	46	42	43
Thailand	40	22	15	19	28	38	13	19	21	41	50	47
Type III												
Sri Lanka	32	27	26	20	20	27	15	15	16	48	46	47
Bangladesh	57	47	44	7	14	14	5	7	7	36	39	41
India	50	33	30	20	26	29	14	16	18	30	41	41
Pakistan	46	31	27	16	25	24	12	17	16	38	44	49
Indonesia	54	26	23	14	39	37	8	13	17	32	35	39
Myanmar	33	48	—	12	13	—	8	9	—	55	39	—
Type IV												
China	39	33	32	38	47	48	30	37	34	23	20	20

Source: World Bank (1991) *World Development Report,* Washington
Notes: 1 Data from the Council for Economic Planning and Development, Republic of China (1988) *Taiwan Statistical Data Book,* Taipei.

analysts writing about development often use the examples of Japan, Korea and Taiwan at the country level and Singapore and Hong Kong at the city level as models of the development process which could be emulated by other Third World countries (Amsden 1979; Hamilton 1983; Shinohara and Lo 1989).

In attempting to explain the reasons for this 'economic success' many writers have emphasized a wide range of factors including the 'export' orientation of the economies, the role of the state, Confucian ideology, fiscal policy and a number of other factors, but few have paid very much attention to infrastructure investment in transport and communications. In this chapter we concentrate upon this aspect by organizing the chapter in three parts. In the first part we put forward a broad macro-spatial model of the spatial organization of Asian countries. In the second section we illustrate the operation of these processes over the last forty years in South Korea and Taiwan and in the final part we draw together the common elements of the experience of spatial reorganization in these the two countries. Finally, in a brief conclusion we offer some policy implications drawn from this preceding analysis.

TOWARDS A MACRO-SPATIAL MODEL OF THE SPATIAL ORGANIZATION OF ASIAN COUNTRIES

This concern to emphasize the transformation of the spatial organization in the process of economic growth in Asia is not new. In the mid-1970s researchers at the UN Centre for Regional Development were developing highly innovative macro-spatial models of Asian countries. Particularly important in this respect was the work of Lo *et al.* (1981). Figure 7.1 illustrates a highly generalized model of Asian countries at the onset of the post-1945 development phase. This model is characterized by the introduction of the concept of 'triple dualism' to describe external relations, the dualism between informal and formal and between urban and rural. All things being equal, the process of development should lead to the growth of the urban sector, particularly the formal sector, and the decline in the traditional village informal economy, but this would be dependent upon the ability of countries to set in motion the industrial transition. In the Asian context, Lo *et al.* describe four different macro-spatial models of which Type IV, the East Asian model, is helpful for the theme we wish to develop in this chapter. From their point of view, the particular pre-existing conditions of the East Asian model which include the

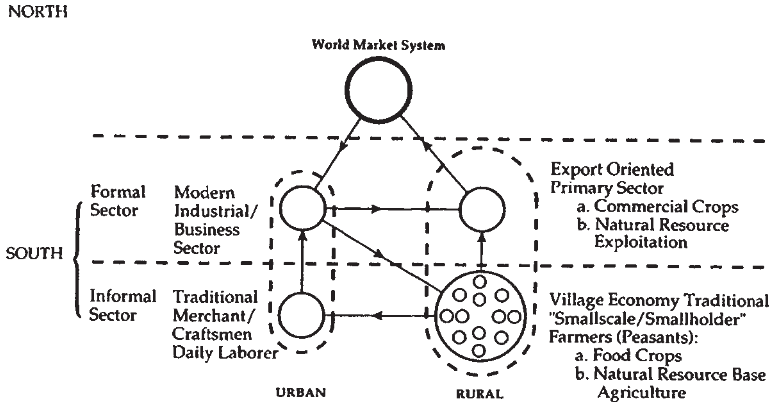

Figure 7.1 Basic macro-spatial model
Source: Lo, Salih and Douglass (1981)

countries of Japan, South Korea, and Taiwan and to which could also be added Hong Kong and Singapore, provided a set of structural conditions which were very helpful to the process of economic growth (see Figure 7.2). All these areas were characterized by a high population density and poor national resources endowment. Second, at the start of their rapid growth these states had some form of established infrastructure of education and transportation which could be utilized. In the cases of Korea, Taiwan, Hong Kong and Singapore this was largely associated with the colonial empires which meant that there were well-established ports for prospective wider international linkages. Third, it is argued that all these countries were able to develop strategies that emphasized their role as labour intensive components of the international division of labour, and they were in advantageous positions with respect to access to parts of the developed world market.

The era of the Asian cold war (1950s to 1970) was also profitable as all these states received various forms of military aid and had a foreign military presence. During the late 1970s, a fresh bout of international restructuring occurred fuelled by the shift from industrial to information society. Advances in transport and communications including container shipping, jumbo jets and applications of computer technology to transport are all important. These have led to the

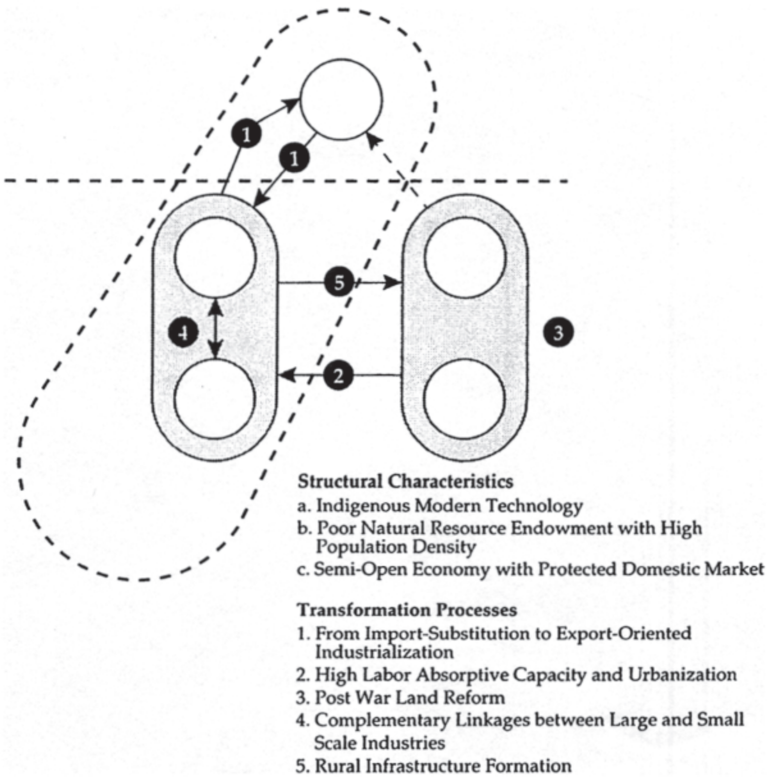

Figure 7.2 Asian economies: model IV
Source: Lo, Salih and Douglass (1981)

development of global export networks controlled by multinational corporations. Such changes are creating intensely competitive development corridors within many of those countries that seek to attract more international investment. Thus another period of spatial restructuring is occurring as a consequence of new spatial practices (see Armstrong and McGee 1985; Douglass 1988, 1989; King 1990; Rimmer 1990). In this respect the contrast between the changes in the spatial structures of the city states of Singapore and Hong Kong, which essentially involved urban reorganization, and the larger nations of Taiwan and South Korea which involved national spatial reorganization, may seem considerable but we would argue that the differences are more of degree and are less distinct than is often argued.

Table 7.2 Selected Asian countries: transportation and communication data, 1960–85[1]

	Population (million)		*Railway (100 million)*				*Motor vehicles (1,000)*			
			passenger (km)		*net ton (km)*		*passenger car*		*commercial vehicle*	
	1960	*1985*	*1960*	*1985*	*1960*	*1985*	*1960*	*1985*	*1960*	*1985*
Japan	93.2	121	1,596	3,284	538	221	419	27,844	1,345	17,377
Hong Kong	2.9	5.5	1	17	0.1	0.5	32	161	9	81
Singapore	1.6	2.6	—	—	—	—	67	236	15	118
Taiwan	10.6	19.4	6	28	2	2.3	6.3	830	4.6	100.3
South Korea	24.6	62.4	49	226	30	120	13	557	18	541
Malaysia	6.9	16.1	6	14	7	10	97	1,392	32	442
Philippines	27.5	56.6	8	2	2	0.1	74	360	67	521
Thailand	25.5	52.1	23	91	11	27	41	688	47	395
Sri Lanka	10	16	21	21	3	2	83	149	34	132
Bangladesh	53	100	32	60	17	8	11	44	9	38
India	432.6	766.1	780	2,400	724	1,964	280	1,351	240	1,451
Pakistan	92.7	99.2	122	168	83	82	52	452	24	153
Indonesia	92.6	166.9	72	64	11	11	103	987	92	1,077
Myanmar	20.0	37.8	15	38	7	6	18	60	18	52
China	646.5	1,072	281	2,416	781	8,126	—	—	—	—

Table 7.2 continued

	Civil aviation data				*Merchant shipping (10,000 ton)*		*Telephone per 100 inhabitants*		*Radio per 1,000 inhabitants*		*TV per 1,000 inhabitants*	
	(100 m) Pass – km		*(million) Freight – km*									
	1960	*1985*	*1960*	*1985*	*1960*	*1985*	*1960*	*1986*	*1960*	*1983*	*1960*	*1983*
Japan	10.5	311.8	16	2650	693	3994	5.9	55	133	713	64	563
Hong Kong	—	—	—	—	42	685	3.7	44	55	518	2	228
Singapore	5	217	7	981	13	650	3.7	43	87	272	33	188
Taiwan	0.6	11	2	1838	53	620	0.9	24	42	236	191	244
South Korea	0.2	111	0.1	1311	13	716	0.4	22	41	451	0.3	175
Malaysia	5	49	7	190	36	117	1	8	—	410	6	113
Philippines	2.8	70	3	199	17	459	0.4	1.5	22	45	1	26
Thailand	0.6	101	0.9	417	6	58	0.2	1.9	6	205	2	27
Sri Lanka	1	25	1	67	—	63	0.5	0.8	—	—	—	3
Bangladesh	3.7	15	5	68	2	35	0.1	0.1	—	8	0.5	1
India	11.1	77	35	389	85	660	0.1	0.5	5	55	0.5	4
Pakistan	3.4	53	17	284	22	45	0.1	0.6	3	78	0.2	12
Indonesia	2.6	53	4	103	17	193	0.1	0.3	9	138	0.4	23
Myanmar	0.5	2	0.9	1	—	11	0.1	0.1	5	23	—	—
China	13	37	40	245	40	1056	0.4	0.7	11	—	0.03	7

Sources: Statistical Yearbook, United Nations; *Urban and Regional Development Statistics* (1987) Republic of China, Urban and Housing Development; Council for Economic Planning and Development, Executive Yuan; *Taiwan Statistical Data Book* (1988) Council for Economic Planning and Development; Republic of China

Notes: 1 Dates are sometimes approximate to those stated.

Table 7.3 Average annual growth rate in transportation and communication, 1960–87

	Population	Railway		Motor vehicles		Civil aviation	
	1960–86	passenger (km) 1960–85	net ton (km) 1960–85	passenger car 1960–85	commercial vehicle 1960–85	passenger (km) 1960–85	freight (km) 1960–85
Japan	1.0	2.9	−3.6	18.3	9.1	14.7	22.7
Hong Kong	2.5	12.0	6.6	6.7	9.2	—	—
Singapore	1.9	—	—	5.2	8.6	26.6	36.2
Taiwan	2.3	6.3	0.5	21.5	13.1	12.3	31.4
Korea Republic	3.6	7.0	5.7	16.2	14.5	28.7	46.1
Malaysia	3.3	3.4	1.4	11.2	11.1	15.3	22.9
Philippines	2.7	−5.7	−12.7	6.3	8.2	13.7	18.2
Thailand	2.7	5.6	3.6	11.9	8.9	22.7	27.8
Sri Lanka	2.0	0	−1.9	2.7	6.3	22.2	30.0
Bangladesh	2.8	2.9	−3.4	8.0	19.7	15.0	29.8
India	2.2	4.6	4.1	7.1	8.1	8.1	10.1
Pakistan	0.36	1.3	0	9.0	7.7	11.6	11.9
Indonesia	2.3	−0.5	0	9.4	10.3	12.8	13.8
Myanmar	2.3	3.8	−0.6	4.9	4.3	8.0	0.6
China	1.9	6.9	7.6	—	—	11.0	19.9

Table 7.3 continued

	Merchant shipping 1960–85	*Telephones per 100 1960–86*	*Radio per 1,000 1960–83*	*TV per 1,000 1960–83*
Japan	7.2	9.3	7.6	9.9
Hong Kong	11.8	10.0	10.2	22.8
Singapore	16.9	9.9	5.1	10.1
Taiwan	10.3	13.5	7.8	0.9
Korea Republic	22.2	16.6	10.9	14.6
Malaysia	17.3	13.9	—	17.7
Philippines	3.9	5.4	3.0	15.2
Thailand	14.3	9.0	16.6	12.0
Sri Lanka	—	3.0	—	—
Bangladesh	22.7	0	—	14.8
India	8.5	6.4	10.9	31.9
Pakistan	2.9	7.1	14.5	25.5
Indonesia	10.2	5.9	12.0	25.2
Myanmar	—	0	6.8	—
China	14.0	7.2	—	26.7

Source: United Nations (1988) *Statistical Yearbook*, Geneva; Republic of China (1987) *Urban and Regional Development Statistics*, Taipei; Council for Economic Planning and Development (1983) *Taiwan Statistical Data Book*, Taipei

From the point of view of this chapter it is therefore necessary to consider how the spatial practices of the Asian NICs have successfully set about producing and controlling space in a way which facilitates the breakdown of the 'friction of distance'. Unfortunately, it is exceptionally difficult to produce empirical data that enables this assertion to be tested. However, Tables 7.2 and 7.3 show clearly that the Asian NICs lead most other Asian countries in practically every aspect of the transportation and communication infrastructure. What is more, these components have grown at rates which are much faster than elsewhere in Asia and have been the crucial elements in spatial reorganization. However, the existence of a facilitative transaction environment needs the input of the state and private sectors to ensure that it is utilized effectively. In this respect the role of the 'state' is of prime importance because of the need to control national security, the protection of national ideology and the economic interests associated with economic development. While the role of the 'private sector' may be of major importance in many of the modes of transport and communication such as railway, buses, shipping, airlines and TV, the 'state' is centrally concerned that the 'means of transport and communication' work efficiently and do not operate in a way that acts against national interests. In the Asian NICs the 'state' has been particularly effective in ensuring that the means of transport and communication have worked efficiently, both at a national and international level.

In the next section, we have summarized the main features of this process in Taiwan and South Korea.

SPATIAL REORGANIZATION IN ASIA: CASE STUDIES OF TAIWAN AND SOUTH KOREA

While these two territories are different in size, they do share common features of high population density, limited resources, an extended period of colonial rule and strategic positioning in the global economy during the period of the Asian cold war which gave them unparalleled access to markets in the developed countries. They also share a common experience of rapid industrialization, agricultural change, high education level and 'state guidance' and control. In this section we briefly describe the development of the two NICs over the post-Second World War period in order to provide the setting for a discussion of the role of the production of space in their economic growth.

Taiwan

With a small area of 36,000 square kilometres and a current population of some twenty million, Taiwan distinguishes itself as one of the few newly industrializing countries (NICs) rising from a low level of development to become a developed country in some forty years. Starting from a level similar to that of other less developed countries in the late 1940s, Taiwan has achieved a per capita GNP which places it well above the average for 'upper middle income' countries as classified by the World Bank. If the large 'black economy' were counted in, the actual figure would be almost as high as those of Ireland or New Zealand. Accompanying the rapid economic growth and industrialization was a transformation from a predominantly rural society to one in which the majority of the population lives in metropolitan areas. The achievement of rapid economic growth and social transformation without great social unrest has earned Taiwan the title 'economic miracle'.

The insertion of Taiwan into the world system was accelerated with the expansion of the Japanese empire in the late nineteenth century. During the period 1895 to 1945, Taiwan was a Japanese colony and provided a range of farm products required by Japan. To increase the absolute amount of surplus, the Japanese introduced a scientific approach to agriculture and invested heavily in infrastructure. In budgeting its expenditure, the Japanese colonial Government-General consistently gave high priority to transport and communication, allocating from 40 to 60 per cent of its fixed capital expenditure and fixed investment to this sector (Ho 1978). While considerable investment in transportation and communication by Japan served to transform Taiwan into an export agricultural economy, it also promoted the formation of Taiwan's urban system. The construction of the transport network had initially been focused on the north and the south ends of the island. In 1899, a north-south main railway was constructed by the Japanese with a budget of 28.8 million yen (Hsu *et al.* 1980). By 1935 this railway was double tracked between Taipei and Keelung in the north and between Taiwan and Kaohsiung. Closely linked with these transportation projects was the construction of modern deep water ports at the northern Keelung and southern Kaohsiung ends of the island (Pannell and Ma 1983:262). Between 1916 and 1925, the military road connecting the north and south that dated from the initial period of the Japanese occupation was widened, improved, and renamed the Longitudinal Highway (Hsu *et al.* 1980).

These developments laid out the basic transportation system that articulated the spatial pattern of urban settlement. The cities in the north and the south ends of the island experienced considerable growth during this initial period of incorporation. Taipei, the conjunctional point of the highway system, became the most connective and accessible centre (Hsu *et al* 1980); its population increased from 230,000 in 1928 to 310,320 in 1936. Kaohsiung, owing mainly to its deep water ports, began to emerge as an industrial centre in the southern end of the island. By the end of the 1930s, the main settlements and population centres had been linked by transport lines and the outline of the urban system with a political centre in the north (Taipei) and an economic centre in the south (Kaohsiung) had been completed. For all the hardships imposed on the Taiwanese people, the 'spatial practices' of Japanese colonialism in Taiwan left a substantial infrastructure system which laid the foundation of the pattern of modern urban growth and development.

After World War II, Taiwan was restored to Chinese control and became a refuge for Chinese nationalists following the Communist takeover of the mainland in 1949. The restoration of the economy was undertaken with massive foreign assistance. Between 1951 and 1965, Taiwan received American economic aid of about US$1.5 billion, averaging about US$100 million per year. This strong financial support enabled the Chiang Kai-shek regime not only to maintain basic economic and social order but also to make substantial improvements in infrastructure. Between 1951 and 1965 investment in infrastructure comprised the largest share in the sectoral allocation of both American aid and capital assitance (Ho 1978).

From the early 1960s the Taiwan economy experienced dramatic export-fuelled economic growth. The Taiwanese government played a considerable role in this process by promoting the export of the original import substitution goods, soliciting foreign investment in selected industries to help in diversification and deepening, and more importantly, setting up infrastructure of transportation to accommodate this export-led industrialization. When industrialization shifted its course from import substitution to export promotion, production began to rely on domestic labour and imported raw materials. The ability to bring labour to the proximity of the port cities where raw materials were imported and processed goods exported became crucial. This was achieved through developing a good infrastructure, particularly a well-integrated transportation network. Since 1950; the Taiwanese government has consistently directed a large proportion of its investment toward the service sector. This sector has consistently accounted for over 50 per cent of public investment. When the service is disaggregate, the largest share of investment has always gone to transportation, storage, and communication. In fact, as Ho (1978) has noted, transportation has been the only component of the service sector that maintained and even increased its investment share.

This heavy investment substantially improved the road and rail network inherited from the colonial period. The proportion of highway that was paved increased from only 17 per cent in the early 1950s to 55 per cent in the mid-1970s (Galenson 1979). This large infrastructure investment makes Taiwan distinctive amongst Asian countries (Table 7.4).

Geographically, the investment in transportation was focused in northern Taiwan which has dominated the industrial activities of the island since the 1950s. Five of the six major industrial zones and three of the four industrial parks are in the north (Hsu *et al.* 1980). In response to the rapid industrialization of nothern Taiwan, the government focused investment on building a transportation network in the region. As early as 1964, a new highway connecting Taipei and Keelung was completed which shifted the geometric centre of the network to Taipei (Hsu *et al.* 1980). The centres with the highest accessibility and connectivity have further shifted northward as a result of highway and railway construction. Consequently, the Taipei-Keelung region of the north experienced rapid urban growth. This is reflected in migration patterns, with the northern region absorbing a growing number of migrants during the period between 1966 and 1981. The central, southern and eastern regions experienced a net migration loss of 1,030,000 people while the northern region gained 952,000 (McGee 1985).

In addition to the development of transportation infrastructure, the creation of the Export Processing Zones (EPZs) has been another important factor that helped to link economic growth with spatial transformation. Just before the 'liberation' of the economy in the mid-1960s, a special export processing zone was set up at Kaohsiung–a port city in the south. Five years later, two other EPZs were established near Tainan and Taichung. Raw materials and product components came into the zones to be processed, finished and re-exported. These zones were successful in attracting a variety of industries that sought the advantages of the low-cost and skilled Taiwanese labour. The establishment of these processing zones

Table 7.4 Transport density in selected Asian countries

	Paved highway (%)	Population 1974 (millions)	Area (1,000 sq km)	Density			
				Metres per square km		Metres per 1,000 persons	
				Railway	*Highway*	*Railway*	*Highway*
Taiwan	51.7	15.9	36	153.0	457.6	353	1,036
Myanmar	27.1	31.2	680	5.7	36.8	124	802
Sri Lanka	38.4	14.0	66	30.5	963.0	144	4,510
India	18.3	620.7	2,960	36.3	434.7	- 175	2,073
Indonesia	49.1	134.7	1,514	5.2	23.5	59	264
Iran	27.3	34.1	1,630	3.2	26.6	155	1,273
Iraq	31.2	11.4	303	8.4	68.6	222	1,824
Japan	25.2	112.3	381	171.0	2,755.9	581	9,350
Malaysia	87.2	12.4	334	6.6	54.2	178	1,460
Pakistan	56.5	72.5	877	14.5	38.7	176	468
Philippines	20.5	44.0	298	4.4	332.2	30	2,250
South Korea	6.1	34.8	98	55.4	355.1	156	1,000
Thailand	51.3	43.3	515	8.6	56.0	102	666

Source: Galenson (1979)

contributed to the further strengthening of the existing urban hierarchy. By 1980, Kaohsiung, the site of the largest EPZ, had become the second largest city in Taiwan, with a population of 1.8 million. Taichung and Tainan where the other EPZs were located contained 1.4 million and 0.79 million respectively, ranking as the third and fourth large cities on the island (Williams 1988).

Thus, developments in transportation and export processing zones have greatly facilitated the concentration of population in the northern region centred on Taipei and the southern region focusing on Kaohsiung. Within these regions development was concentrated on the four metropolitan regions of Taipei, Taichung, Taiwan, and Kaohsiung, which in the period between 1966 and 1981 increased their share of Taiwan's population from 35.6 to 46 per cent, thus creating a highly urbanized corridor stretching from Taipei to Kaohsiung.

The emergence of the Taipei-Kaohsiung metropolitan corridor in Taiwan can be attributed partly to the state's conscious decentralization policy and partly to the continued development of the transportation infrastructure. Between 1971 and 1978, a 370 kilometre American-style north-south expressway was constructed. This reduced travelling time by two-thirds. The resultant improvements in accessibility and connectivity attracted enterprising capitalists to locate their plants in these centres along the highway or subcontract to rural households. The new international airport at Taiwan contributed to its rapid growth as an outlier of the Taipei-Keelung northern industrial region. Similarly, the new harbour and town at Taichung Harbour gave rise to a major new industrial growth pole that is expected eventually to equal those of Taipei and Kaohsiung (Williams 1988:183). The Taipei-Kaohsiung corridor, in which the economy is made up of a great mixture of service, industrial, and agricultural activities interconnected by rapid transportation, presents an example of the 'spatial practices' of the Taiwan state and it has become the major spatial focus of economic growth in the country (Ginsberg *et al.* 1991; Liu and Tsai 1991).

South Korea

In South Korea, rapid economic growth began only after 1963, but the South Korean 'miracle' was also not devoid of historical antecedents. In a similar manner to Taiwan, South Korea was incorporated into a wider world capitalist system by the Japanese during the colonial period of 1910 to 1945. While drastically exploiting the Korean population, the Japanese introduced technological advances and laid some of the key foundations for economic development. To increase Korea's ability to supply the colonial demand for inexpensive rice, the Japanese had by 1928 established a system of railways and bridges linking Korea with Manchuria and Europe. The major north-south rail line connected Pusan, Taegu, Seoul, and Pyongyang with Sinuiju on the Manchurian border (Nemeth and Smith 1983). Such a transport network undoubtedly helped to strengthen the existing urban system through increasing the interaction between cities and laying the beginnings of the present day urban corridor between Seoul and Pusan.

In the years immediately after World War II, the Korean economy suffered through a period of uncertainty under the United States Military Government, the devastating Korean War, and a division of the country into north and south. Between 1953 and 1963 the South Korean economy was kept alive largely by massive economic and military assistance from the United States. It was not until 1963 that South Korea began to experience rapid economic growth. It is generally believed that the sudden shift to rapid growth in output can be largely ascribed to the basic policy change from import substitution to export promotion (Kim and Roemer 1981; Mason 1980).

The implementation of the export-oriented strategy was facilitated by a series of fiscal policies such as the reform of the exchange system including the devaluing of the South Korean dollar and increasing interest rates in order to encourage both domestic and foreign saving for investment. One contributing factor that has not received sufficient attention is the state's investment policy which was significantly in favour of infrastructure during this period. Fixed investment (at current prices) rose dramatically, from 11 per cent of GNP in 1960 to more than 20 per cent of GNP in 1966, and to over 25 per cent of GNP thereafter (Hasan and Rao 1979). The largest share of this investment went to social overhead capital, such as electricity, transport, and construction. A detailed examination of the sectoral allocation of fixed investment shows that about 60 per cent of investment went to service sectors throughout the post-Korean War period. Within the service sector, there was a substantial shift of emphasis from dwellings, which declined from 19 per cent of investment during 1954–60 to only 13 per cent during 1961–73, in transport the share of which rose from 20 per cent to 26 per cent between two periods (Kim and Roemer 1981).

The South Korean state's investment bias toward infrastructure during the 1960s and 1970s can also be detected from examining the changing composition of government spending. During this period, the share of total government spending on economic and social services rose sharply to account together for more than half of total government expenditure and over 10 per cent of GNP. Expenditure on economic services was consistently greater than on social services, and the disparity has widened since the mid-1960s. Within the economic services, there was also a shift away from expenditure on manufacturing and mining towards investment in transportation, storage, and communications (Mason 1980).

Heavy investment in infrastructure, together with other economic and fiscal policies, led to a rapid economic growth and structural change. In a similar manner to Taiwan, South Korean export-oriented industrialization led to a process of spatial transformation whereby a growing number of people moved to the metropolitan areas. These links between industrial structural changes and spatial transformation stem from the fact that manufacturing and service industries are predominantly located in the metropolitan areas that possess the most favourable infrastructure and accessibility. Thus heavy investment in infrastructure and manufacturing in a number of selected urban areas tended to produce a distinctly polarized urban space.

During the years from 1955 to 1960 South Korea experienced a total net rural-urban migration of 584,000 persons (Mills and Song 1979). The proportion of the population living in urban areas increased from 24.5 per cent in 1955 to 50.9 per cent in 1975 (Kim 1984). The increase of the share of urban population has, to a remarkable degree, been associated with an increse in the concentration of population in the metropolitan areas of Seoul and Pusan. While other provinces were losing population during the early 1960s, Seoul and Pusan gained a substantial amount of in-migration. It has been estimated that of the net rural-urban migration during the period 1960 to 1966, Seoul absorbed nearly 70 per cent (Mills and Song 1979). In 1960, the population of Seoul and Pusan was 3.6 million, or 14 per cent of the national population. By 1975, these cities accounted for 27 per cent of the national population and Seoul alone had seven million inhabitants, or roughly 20 per cent of the total population. If surrounding urban settlements are included, this proportion rises to about 30 per cent (Hasan and Rao 1979). At the provincial level, Gyeonggi, the province surrounding Seoul, received the spillover of growth from Seoul's metropolitan area and had the highest rate of growth in each intercensal period. Such a concentration of population from rural, peripheral areas to the core metropolitan areas of Seoul and Pusan has played an increasing role in the process of urbanization. Between 1960 and 1966, net migration and natural increase were about equally responsible for the increase in the urban population; between 1966 and 1970, however, net migration became dominant, accounting for 73.5 per cent of urban growth (Hasan and Rao 1979). Clearly South Korea experienced a polarized urbanization during the 1960s although this pattern has become less pronounced.

Since the mid-1970s, the concentration of population around Seoul and Pusan has been significantly changed into the development of an extended metropolitan corridor. This was brought about partly by the policy to focus industrial growth away from North Korea for reasons of national security and partly by the further expansion of the transportation network. The perceived threat to national security posed by the proximity of North Korea to Seoul, prompted the South Korean government to contain the growth of Seoul by placing additional taxes on new industries locating there and encouraging the creation of large-scale industrial parks outside the city by giving tax exemption and financial assistance (Smith *et al* 1983). Implementation of these policies has led to a rapid growth of industries in the centres outside Seoul such as Incheon, Puscheon, Anyang and Suweon. Such actions also led to the development of the southeast coastal area, between and around Pusan, Taegu, Ulsan and Masan, and significantly promoted the urban transformation of many spatially contiguous rural areas which radiate like ribbons from Seoul (Lee 1982).

In addition to these policies, improvements in transportation infrastructure have also helped significantly in shaping the spatial pattern of urban development. For example, the concentration of the major exporting ports on the east and southeastern coasts (due originally to the favourable natural conditions) was increased by the construction of modern cargo handling facilities at Pusan, Ulsan, Mukho, and Mason. The four-lane express highway constructed during the 1960s has served as the major transportation artery linking Pusan to Seoul. These developments have attracted population and industries to the area between Seoul and Pusan and set the stage for the emergence of the Seoul-Pusan metropolitan corridor.

The effect of time-space convergence on the spatial reorganization can be illustrated by the changing distribution of manufacturing employment which has become concentrated along the Seoul-Pusan corridor. Kyongsan Province which is located in the southeast near Pusan has dramatically increased its share of the nation's total manufacturing employment from 28.6 per cent in 1958 to 41 per cent in 1983. In the same period, the share of manufacturing employment in Chollas Province of the southwest has declined from 13.1 per cent to only 5.4 per cent (Choi 1990). Employment in the machinery, metal and electronics industries has shifted its focus from Seoul and Pusan to the area nearby. In 1970, some 76.7 per cent of the total employment in these industries was concentrated in Seoul and Pusan. By 1984, Kyonggi Province (excluding Seoul) accounted for 38.6 per cent of the total employment in these industries and North and South Kyongsang provinces (excluding Pusan) contained 32.3 per cent (Choi 1990). While Seoul and the region around it maintained their dominance in the country's population and production, the southeastern region which includes Pusan and Taegu, and comprises thirteen cities and thirty-one counties had come to account for 27 per cent of the total Korean population and produce 30 per cent of the country's national output (Choi 1990).

THEORY AND PRACTICE: THE COMMON EXPERIENCE OF SPATIAL REORGANIZATION IN THE ASIAN NICs

In relating the empirical data presented in the preceding section to the theoretical introduction, three major common components appear to characterize the two Asian NICs. First, the two territories had a well established basic transportation system which linked them to the global system as they embarked on the post-war period of economic growth. These transportation systems were created by the colonial power Japan. Second, while the two NICs were characterized by high population densities and limited resource bases this was not a major blockage to the development process. In fact the supply of surplus labour within a controlled labour environment was very attractive to the mixture of foreign and local investors who developed the export industries. The creation of these export industries was greatly encouraged by government policies which included the creation of export processing zones (EPZs). Third, the two states devoted a major portion of their expenditures to the service sector of which a large proportion was invested in transport, storage, and communications. Thus in Taiwan in the period between 1951 and 1973 an average of 15 per cent of all gross capital formation occurred in this sector, which resulted in substantial improvement in the road and rail network; paved roads increased from 7 to 54 per cent of the total by 1973 and the number of motor vehicle passengers per km of road increased at the rate of 21.5 per cent per year. The development of an export processing zone at the port of Kaohsiung in the south of the region and the growth of Taichung and Tainan in between has created an emergent metropolitan corridor along the Taipei to Kaohsiung expressway.

In South Korea, similar patterns also emerged in the period after the Korean War. Government spending rose sharply in the late 1950s and continued with heavy investments in infrastructure which led to a remarkable improvement in transportation and communications. In the period between 1965 and 1975 freight and passenger traffic increased by 12 to 13 per cent a year, there was substantial growth in coastal shipping, and the number of passenger cars increased at a rate of 20 per cent per annum. In addition super highway links between Seoul and Pusan were expanded. Linkages will be further enhanced by the decision to build a Shinkansen type railway between these two cities.

From a theoretical point of view it is clear that the Asian NICs under discussion have been very successful in breaking down the ‘friction of distance’ and reducing transportation costs. In order to accomplish this they have had to appropriate and dominate space, using various spatial practices such as allocation of capital to transportation infrastructure. This production of space could not have been accomplished without their fortuitous positioning in the global economic system, substantial allocation of foreign capital and a major involvement of the public sector. Proponents of the NICs model of development frequently portray their economic success as being a reflection of ‘unfettered capitalism’ but this is surely an over-simplification. The transactional environments of the NICs where goods, people and money move very rapidly is very much a consequence of the government’s desire to create and control their environments so as to successfully ‘annihilate’ space.

CONCLUSION

It is tempting to draw rather obvious policy conclusions from this analysis; that governments would be well advised to conduct heavy investment in the infrastructure of transport and communications. In making such a suggestion we would certainly be echoing some of the conventional wisdom of the World Bank in the 1950s to 1960s and indeed the central thrust of many of their major loan programmes. In the 1980s, this thrust has added an important dimension of linkage to the international economy which has led to the building of new international airports in Seoul and south of Taipei. These are designed to increase competitive linkages in the international economies. At the level of urban space these policies appear to be emphasizing the development of large urbanizing regions which may be labelled Extended Metropolitan Regions. Within regions, however, transport problems still persist. The rapid rise in individual car ownership and the demands that this places on the energy supplies of these countries is an important factor in transportation planning. But whether or not development options exist which can deliver some mixed mode of transportation with more labour intensity and energy efficiency is hotly debated and will have to involve the Asian NICs in important decisions. For instance, the development of public transportation with limitations on private car ownership is now an accepted part of Singapore's transportation strategy. In the broader context of transactional environments of the Asian NICs the success of the application of spatial practice aimed at collapsing space through linkages that cut costs and time remains a crucial lesson for other Asian countries' development policy.

NOTES

1 This chapter will deal only with Taiwan and South Korea but as must be obvious from the discussion in the text, Hong Kong and Singapore must be seen as experiencing the same processes.

2 This is a very inadequate paraphrase of pages 218–23 in Harvey (1989). We recognize that we have over-simplified Harvey's subtle emphases upon the interconnectivity of these dimensions and aspects. In future work on this subject we propose to explore in greater detail the non-material aspects of spatial practices as they apply to developing countries in Asia.

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8

CHINA: THE CONSEQUENCES OF LIBERALIZATION

Denis Dwyer

The Tien An Man Square massacre in June 1989 was but the latest in the history of modern China of a series of bloody urban protests against the inadequacies and iniquities of central government. Virtually all of these protests–except during the very latest stages of the Communist revolution–proved futile, at least in terms of the achievement of significant change in the short run. Even so, the massacre was highly significant not only in terms of the loss of life and the open demonstration of the underlying brutality of the Communist government–and the fundamentally changed position of China within the community of nations as a result–but also in what it revealed of the internal political divisions and consequent vacillations within the highest levels of the government, especially in the days immediately before the troops were called in. The lengthy period of inaction by the government in the face of mass protest in favour of democracy and against the blatant corruption within the Party may perhaps to some extent be attributed to the visit of Mr. Gorbachev in the middle of the crisis. The inaction itself, and the ultimate–almost inconceivable–decision that was made to use extreme force, can also be seen, however, as the political culmination of a growing lack of control both over significant aspects of the liberalization of the economy that was then proceeding apace and, as a key aspect of the liberalization, at least to some degree also over people's individual lives.

The immediate roots of the crisis can be traced back to two factors: first the triumph of Dengists at the Third Plenum of the Eleventh Central Committee in December 1978 ushered in an unprecedented period of economic liberalization, an espousal of material incentives as key motivating factors and a measure of personal freedom and economic decision-making greater than any known before in China under Communism. Second was the failure during the near-decade that followed to solve both major historical problems of the Chinese economy and a new set of important problems that arose as by-products of the liberalization.

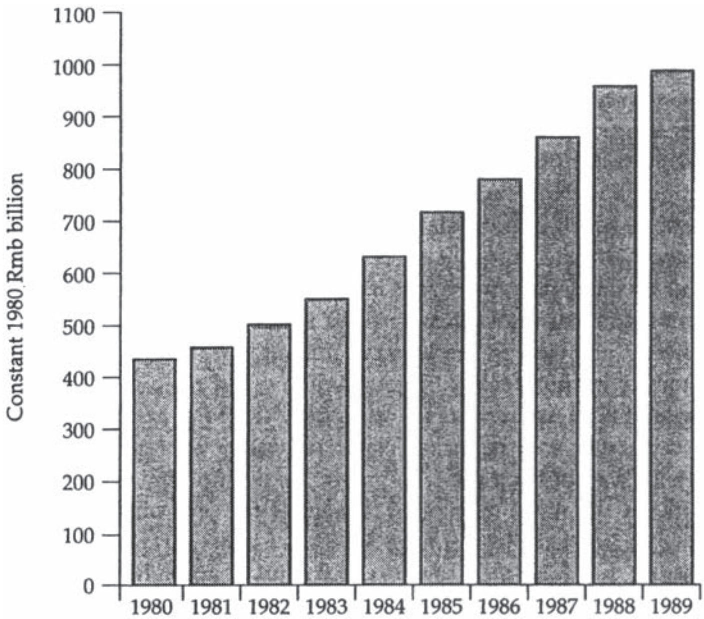

Figure 8.1 China: GNP, 1980–89
Source: Far Eastern Economic Review data

In macro-terms, the overall record of development during the 1980s was exceptionally good, real GNP growing by about 9 per cent a year (Figure 8.1). It appeared that much of significance was being done to break the closed cycle of low-level achievement that had become apparent during the second half of the 1970s as the end result of Maoist development. In agriculture, the communes were abandoned and a family and small group responsibility system of landholding introduced. This had virtually immediate results in terms of gains in the politically-sensitive area of grain production, although the record was a fluctuating one, and in the diversification of agricultural production, particularly towards the more lucrative crops and on-farm activities. There was a record grain harvest of 407 million tonnes in 1984 and again in 1990 (4–25 million tonnes), both figures well up on the 1978 harvest of 304 million tonnes. In general, during the decade production fluctuated around 390–400 million tonnes of grain. In addition, the towns and cities benefited greatly, as did individual farmers in their new roles as mini-entrepreneurs, the availability through a new system of free markets of a greater variety of food (though at a price), more choice and better quality.

All in all, there were real gains in terms of both general agricultural advancement and individual peasant well-being from the responsibility system and the free markets. However, the new system did not bring solutions to some fundamental problems inherent in the formerly collectivized agricultural economy. Basically, of course, it remained a tenancy system and, as such, strong disincentives continued to exist for individual, permanent investments in the land: investments that could not be recaptured with profit within a short period of time, or which were immobile. This situation was a particular feature of the earlier years of the 1980s because it could be, and eventually was, to some extent mitigated by relatively long-term contracts with households. The problem could have been solved by the sale of land use rights. Towards the end of the period, it appears that even this was being officially discussed but apparently such policies have not been put into practice—presumably at least in part because of the more repressive climate of the post-massacre period. To the extent that disincentives for longer-term investment could be mitigated, real long-term productivity gains in agriculture could have been anticipated. Even in the circumstances that existed then, some such productivity gains were undoubtedly made but only at the expense of exacerbating another serious structural problem within the countryside which, far from being solved, grew more serious during the period: the existence of a very large pool of surplus labour.

A second major structural problem in agriculture that was persistent, and indeed grew, during the period was the continuous reduction in the amount of cultivable land per capita. During the period since 1949, the regime made great play in propaganda of the addition of extra land for cultivation through land colonization in the more remote areas, policies which had significant political overtones through the wider distribution of Han Chinese agricultural settlers within the national space at the expense of the national minorities. Certainly, gains of new agricultural land were substantial, and Kirkby (1985:180–1) has estimated that in the twenty-two years after 1957 an agricultural area greater than the entire provice of Guangdong was added through land colonization (214,000 square kilometers). Yet over the same period the growth of towns and cities and the building of factories, reservoirs and other productive facilities, along with the expansion of villages to accommodate the growing rural population, took up a far greater area (335,000 square kilometers) than had been gained by land colonization. As a result during the Communist period as a whole there has been a continuous reduction of agricultural land per rural worker. It fell from 8.1 mu in 1957 to 5 mu in 1979, and is expected to decline to only 3.7 mu by the year 2000.[1]

This seriously deteriorating land availability situation was untouched by the rural reforms; indeed the general economic expansion of the 1980s can be said to have accelerated it. It remained an important factor in rural poverty. The growing prosperity of certain farming families and some rural areas of the country during the period did not by any means imply a reduction of the traditionally poverty-stricken areas.

By no means all such areas are identifiable with marginal farming conditions: Leeming (1985:82) has remarked upon the condition of 'high output poverty' that existed among some brigades under the commune system and demonstrated how even in the most environmentally-favoured farming areas prosperous and poor brigades existed virtually side by side. Nevertheless, most of the problems of rural poverty are clearly locationally based, in terms of climate, soil distribution, topography and/or remoteness, so that over substantial areas of the country rural self-sufficiency in food still remains tenuous. Relief grains continued to be sent around the country during the period of liberalization and in 1986 the central government earmarked 400 million yuan to provide poverty relief. The still-remaining core of the poverty problem was the 100 million peasants whose income in 1986 was less than 120 yuan a year against the national average of 200 yuan, whose annual consumption of cereals was no more than 200 kilograms against the national average of 400 kilograms, and who could not adequately feed or clothe themselves without help (UN World Food Programme 1986).

Because the period was essentially one of agricultural differentiation and the growth of rural income differentials, very little was accomplished in terms of the alleviation of such poverty; indeed a marked growth in inequality in the rural areas was rather the result. Peasants occupying the best land or taking advantage of other local opportunities (often former commune cadres who had used their positions to secure advantage under the new system), and especially those in proximity to towns and cities, benefited most from the responsibility system and the creation of the free markets. A few, able to take advantage of special circumstances for advancement, became the officially-approved '10,000 yuan a year' families of the mid-1980s. By the same token, the responsibility system as a whole substantially reduced the collective control of resources and hence directly reduced opportunities for collective welfare provision. The proportion of output devoted to collective uses in the countryside fell rapidly and the collective funding of social services was thereby weakened (Travers 1984). Given the continuation of the system, this implied that access to such welfare services, medical care and even education would steadily become more and more dependent upon family income. The stage was set therefore for a heightening of tensions in the rural areas in respect of equity–a situation which tended to be concealed during the decade by outward manifestations of rural prosperity such as widespread house-building–and increasing pressures to migrate, especially in the face of the build-up of surplus rural labour.

THE SURPLUS LABOUR PROBLEM

It is clear from the above that the well publicized responsibility and free market systems in agriculture were by no means an unqualified success in that fundamental historical problems of the agricultural sector were either left untouched or actually exacerbated by the liberalization policies. Added to this, the realization grew during the period that the problem of surplus rural labour had become one of huge dimensions, especially as the greater measure of personal freedom that developed extended to increased possibilities of migration from the countryside to the urban areas.

The population statistics of China, and in particular the urban population statistics, are difficult to interpret but, following Kirkby's work (1985), the truly urban population in 1982 may be taken as 15 per cent of the total. This would give a rural population at that date of 862 million. Of this total, just over 40 million could be counted as non-agricultural population living in non-urban places, which would leave 820 million dependent upon agriculture. Kirkby estimates that 330 million of this figure would constitute the agricultural work-force and the rest be dependents. From this work-force, there is general agreement in the literature that at least one-third was surplus to requirements. This would imply that even in the early 1980s some 270 million people, including the dependents of the work-force, could, with advantages to productivity, have been removed from direct economic participation in, or dependence upon, the agricultural sector. This figure may be compared with the total urban population the same year, which on Kirkby's estimate was 153 million. By the year 2000, with gains in productivity, possibly only one-third of a prospective rural work-force of 400 million would need to be employed on the land (Kirkby 1985). This is a measure both of the present and of the growing size of the problem of surplus rural labour. Before the end of this century, there could be up to 500 million surplus and footloose rural dwellers.

THE LARGE AND MEDIUM-SIZED URBAN AREAS

How can such vast quantities of labour be absorbed? The official answer that was developed during the period was both confused and much more idealistic than realistic. Clearly, one response in terms of the experience of other countries would be absorption into the towns. The problem here, however, is that during the 1980s, as ideas of competition, incentives and individual enterprise began to take hold, it became increasingly obvious that in many respects urban work-forces were already of such a size as to be generally inconsistent with efficiency. In China, proportions of 40 to 50 per cent of the employed population engaged in industrial occupations in the larger towns are not unusual. These compare, for example, with the contemporary Japanese figure of 34 per cent and with earlier figures from the United States at the height of its factory-based industrial revolution of about the same. Structurally there is therefore already tremendous emphasis upon, and indeed dependence on, industrial working within the overall economy of China's larger cities. In this sense, there is not much further scope for more to be employed unless there is a very large-scale (and unlikely) increase in manufacturing development.

There are other problems too, particularly the universal existence in the towns and cities of the 'iron rice bowl' in employment. China's industrial workers are virtually guaranteed jobs for life, and there is very little mobility of industrial labour. They are also notoriously low in productivity. Very few factories could contemplate taking on more permanent workers; in fact most are faced with the need to reduce labour in order to improve their competitiveness. In 1988, for example, *The Independent* newspaper (2 March 1988) quoting Zhao Ziyang, then General Secretary of the Communist Party, claimed that in Shaghai alone there were 700,000 workers in factories who 'had no work to do', and later the same year the *People's Daily* was quoted as estimating that out of a total urban work-force of 130 million as many as 30 million had nothing to do (*Daily Telegraph,* 14 June 1988).

Another possible solution could be to look to the towns and cities in terms of service employment. But by the beginning of the 1980s the proportion of the employed work-force engaged in service occupations had become extremely low, largely because of a Maoist legacy of developing what were called 'producer cities', which were cities that concentrated upon industry and within which services and service employment were deliberately run down as in the case even of the capital, Beijing (Table 8.1). As a World Bank study published in 1985 observed, the share of services in output in China (about 17 per cent of GDP) was much smaller than in the typical low-income country (35 per cent) or middle-income country (40 per cent), whilst the share of manufacturing in terms of both output and employment was significantly higher (World Bank 1985).

During the 1980s, therefore, the service structure of Chinese towns and cities proved to be very small and fragile and there was relatively little experience in terms of service industries which could be brought to bear on the problem. Because of the free markets in the urban areas, and the general climate both of encouragement of individual and family enterprise and of somewhat greater personal freedom, services did increase both their share of total output and in employment, but even as late as 1985 the proportion of the output value of the tertiary sector to total output in China was still below that of 1952 (Li 1987).

Table 8.1 Reduction in the number of selected service establishments in Beijing, 1949–80

	Restaurants	*Tailor shops*	*Bicycle, shoe and other repairers*
1949	10,200	—	—
1953	—	3,546	—
1956	—	—	2,100
1980	679	162	340

Sources: Jingji Yanjiu (Economic Research), No. 4, 1980:13. Quoted by Jianzhong Tang and Laurence J.C.Ma, 'Evolution of urban collective enterprises in China', *China Quarterly,* No. 1, 1985:631

What occurred to supplement this modest development were a number of other approaches towards the absorption of population within the larger urban centres. One was the advocacy of the concept of changing one's job but not one's village. This involved the encouragement of the temporary transfer of footloose people surplus to requirements in the villages on a temporary basis to the towns and cities. Such temporary migrants were frequently employed on construction projects, for a feature of the period of liberalization was a massive programme of urban housing construction largely for the purpose of providing an incentive for industrial workers (Dwyer 1986). Temporary workers were also characteristically employed on doing jobs that those with the 'iron rice bowls' in the factories refused to do. As the *China Daily* reported (29 July 1988), 'Something quite unusual occurs in some enterprises: while there is an excess labour force, contract workers are recruited in large numbers. They are expected to perform the heavy work that regular employees are not willing to do'. Not surprisingly and quite accurately, the *China Daily* concluded from this that 'Most Chinese enterprises have undergone too little suffering and hardship'.

Other means of urban population absorption have included the widespread development of make-work projects in towns, often concerned with urban beautification. There has also been the development of so-called dependents' collectives–subsidiary enterprises set up by major factories and clearly designed to employ the sons, daughters and other close relatives of the work-force rather than primarily to serve an economic purpose. By 1984, for example, the Anshan Iron and Steel Company had in addition to 220,000 employees in its mining and steel operations more than 180,000 members of workers' families in dependents' collectives. This latter number alone, a World Bank (1985–6) study remarked, was greater than that the total work-force in the modern manufacturing sector of Kenya, a country of twenty million people. Although such collectives were supposed to be independent and self-supporting, parent enterprises frequently subsidized them. Anshan, for example, used 4 per cent of its profits to obtain supplies for its collectives in 1983; it also gave sales preferences for its slag to its collectives in order to boost their production of cement.

Despite these severely limited absorption opportunities, labour became both surplus to requirements on the land and freer to move; the number of temporary workers from the countryside, and significantly that of *mangliu* or 'blind migrants'–first timers arriving without job contracts–increased very substantially. Perhaps as many as two-fifths of the migrants to Guangzhou were by the end of the decade *mangliu,* whilst the total so-called 'floating population' was estimated to have reached over one million in Beijing, 1.6 million in Shanghai and 800,000 in Wuhan (Anon. 1988). In Guangzhou the 'floating population' was estimated to be 1.1 million in November 1988, with half of the transients coming from outside of Guangdong province (Dwyer 1988). Those who had managed to arrange employment were accommodated either in factory dormitories or in temporary housing built by companies, for example in huts on construction sites. But there were also many sleeping on the pavements around the main railway station, in parks, under bridges and the like.

What had not happened to any great extent in these circumstances, however, was the response to such a situation that is typical in other Third World towns and cities: the large-scale development of what might loosely be called an informal sector. This was presumably because of the extreme difficulty of controlling such activities politically. Attention was turned in terms of official policy response from the larger towns and cities towards small towns, townships and rural enterprises as the primary means of absorbing surplus rural labour and the slogan became 'Strictly limit the size of the big cities; properly develop the medium-sized cities; and encourage the growth of small cities and townships'.

SMALL TOWNS, SMALL-SCALE INDUSTRY AND RURAL ENTERPRISES

Although as late as 1986 Vice-Premier Yao Yilin was asserting that 'China's unemployment poses no serious problems as millions have been assigned jobs in cities and towns in the past decade' (*Beijing Review,* 14 March 1986), as the 1980s progressed increasing emphasis came to be placed upon non-agricultural development within the rural areas and the economic and employment potential of the small towns and townships. A sizeable amount of favourable literature, much of its semi-propaganda, was generated within the country and was echoed in a good deal of Western writing on China's development. Convincing case studies abounded. According to Ye Shunzan, a Chinese geographer presenting a paper at an international conference at the University of Hawaii, surveys had shown that Zhuxian county on the North China Plain had completely changed its labour structure following the introduction of the responsibility system. Its occupational structure had become: 16 per cent of farmers in agricultural production; 47 per cent in 'industrial and sideline' production; and 37 per cent 'surplus'. This, according to Ye, would be 'a typical representation of the situation on the Great North China Plain'. In Jiangsu province, nearly one million peasants were leaving farm work for township enterprises every year, and by 1984 one out of every six peasants in the province was working in township enterprises. By the year 2000, it was anticipated, a further twenty million out of the province's total population of sixty million would have moved to live in small towns and townships (Ye 1985).

A more detailed picture was provided for Wuxi County, Jiangeu province, in the *Beijing Review* in July 1988. It can be seen from Table 8.2 that, according to the figures then published, although the population of the county grew by 4 per cent between 1978 and 1987 the labour force expanded much more significantly, in fact by almost 9 per cent. Under the responsibility system, the area devoted to grain and especially the grain output both declined, presumably because of low procurement prices offered by the central government and the growth of alternative income opportunities. Despite a consequent decline in agricultural output value, there was a huge increase in the total output value recorded in the county. The reason was the growth of rural and township enterprises, for industrial output value from 478 million yuan in 1978 to no less than 7,067 million yuan in 1987. Despite declining agriculture, therefore, the farmers' annual per capita income rose over the same period almost eightfold. More than 5,000 enterprises were said to be operating in the county by 1987 and 80 per cent of the rural labour force was allegedly employed in township and village-run factories or other non-agricultural industries (Jing 1988).

This kind of assertion, which has been endlessly repeated in China as the 1980s and early 1990s have progressed, is of course very difficult to believe. It has very much the flavour of the pronouncements made during the Great Leap Forward in the late 1950s, when the backyard steel furnaces were in full production, supposedly propelling China to the front rank among world steel-making powers; when even village dungheaps were being dignified as fertilizer factories. Indeed, even when the Dengist liberalization was in full flow within the country during the 1980s, there remained a significant critique of the township and rural enterprises centred on the conservative economist Chen Yun, to whom such developments were mere 'froth' and who continued to adhere to the concept that 'Planned production is the main part of industrial and agricultural production, while free production according to changes in the market and within the limit of the state plans is supplementary to planned production' (Delfs 1991:20).

Table 8.2 Wuxi County: economic development, 1978–87

	Year	
	1978	*1987*
Population (thousand)	1,007	1,047
Labour force (thousand)	504	548
Population engaged in agricultural work (thousand)	349	121
Grain crop land (hectares)	61,000	56,800
Total output value (million yuan)	993	7,487
Industrial output value (million yuan)	478	7,067
Agricultural output value (million yuan)	515	411
Grain output (thousand tons)	615	489
Farmers' annual per capita net income (yuan)	124.4	932

Source: Jing Wei, 'Wuxi, combining agriculture and industry', *Beijing Review,* 25–31 July, 1988:15

During the period, both rural industry and urban collective industry gained significantly in terms of share of total industrial output at the expense of state-owned industry (Figure 8.2). However, if it was possible to evaluate thoroughly the development of the rural and township enterprises during the period, there would almost certainly stand revealed a core of solid development, but one very much smaller than officially claimed and gained at excessive cost in terms both of alternative investment opportunities and the waste of resources resulting from the widespread replication of production facilities. Certainly, there appears to have been very little planning, either economic or physical, associated with these developments. They have resulted from a situation in which, in keeping with the spirit of the period, for the first time under Communist rule substantial amounts of investment became free from rigid, centralized control. What was almost a local investment mania resulted, producing a situation in which administrations, groups of cadres or workers and even rich individuals embarked upon almost any kind of investment provided it was not agricultural. Banking control became exceedingly lax and corruption mushroomed. Even local protectionism became blatant in some areas, with the cadres of an administrative district no longer acting as local agents of the central authorities but taking on pseudo-representative and developmental functions for their local citizens, implementing aspects of higher decisions that did not directly conflict with local interests and ignoring the rest. For Zafanolli (1985) the resulting situation made local administration 'resemble an enormous nest of Russian dolls with each one seeking its own economic self-reliance'.

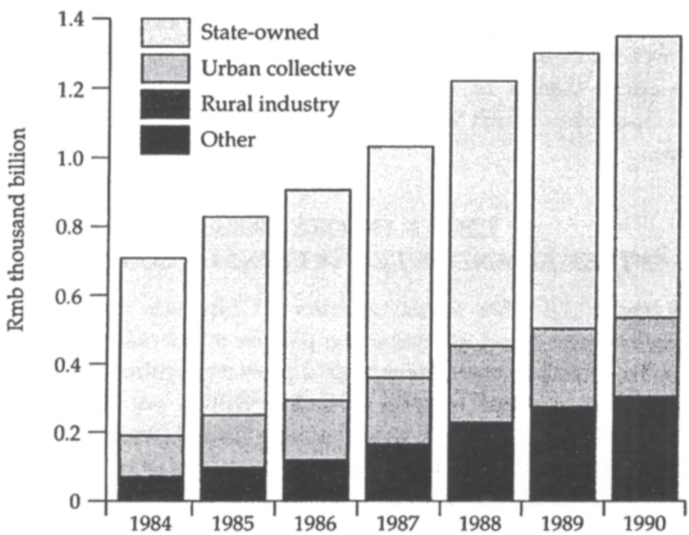

Figure 8.2 China: industrial output by sector, 1984–90
Source: Far Eastern Economic Review data

Administrations not only wanted their own industries but sometimes tried by every possible means to protect them against external competition. Thus local protectionism might go as far as a complete blockade. Some local governments forced banks to refuse payment of orders contracted to enterprises outside their own geographical area of authority when the goods could be manufactured locally, whilst toll gates were set up on some roads and there were even cases of trench digging across roads to impede competition from further afield. A situation was thus produced nationally in which what mattered to each administration, however small, was not the growth of the national economy but its own. The overall result as Zafanolli (1985: 735) pointed out, was sometimes considerable overinvestment, 'and an investment propensity that grows in reverse proportion to the decrease in the productivity of enterprises'. In the car industry at the beginning of the period, nine factories accounting for 69 per cent of total production were planning to double their production whereas another ninety-seven factories that made up the remainder of the industry were planning to treble theirs, despite the fact that some were incapable of producing more than one or two dozen cars a year. Each region wanted its own car factory and rather than close down marginal facilities preferred to enter into frenetic investment. Overall, many businesses survived during the period because they were new, were drawing upon suddenly available and diverse sources of accumulated capital or taking advantage of easy credit facilities, and/or had losses which were sustainable at least for an initial period of time.

CHINA IN THE 1990s: INTERNAL AND INTERNATIONAL PROSPECTS

By the end of the 1980s annual inflation in China was reaching 30 per cent and it had become plain that the policies of liberalization had not only failed to solve major, deep-seated problems within the economy but were also in some respects virtually running out of control, an increasingly obvious result being a huge and blatant increase in official corruption. The Tien An Man Square massacre in June 1989 showed how sensitive and widespread an issue corruption had by then become (Yan 1991). The massacre also demonstrated the impossibility of allowing economic and some social emancipation among the population without providing for an accompanying measure of political freedom. The short period that has followed so far has been much more repressive, not only in political but also in economic terms. The flight of overseas capital and intended investment from China in the aftermath of the massacre contributed to an immediate and severe recession, with economic growth falling to only 3.9 per cent in 1989, less than half the annual average achieved during the preceding decade. Another cause of the recession was that the runaway inflation necessitated the continuation of the severe internal retrenchment already begun in the autumn of 1988, particularly in terms of credit availability. The years since have seen some recovery but the triumph of the forces of conservatism within the Party which resulted from the events surrounding the massacre has dictated a return to more authoritarian, centralized planning, recentralization of the allocation of investment funds, reduced autonomy by provincial governments and restrictions on local authorities' freedom of action. In short, in many respects a return to the Maoist-style thought of Chen Yun. One important result has been continuing paralysis over how best to deal with the problems of the inefficient state-sector industries of the towns and cities. As population pressure on these industries grows, their productivity continues to fall. By September 1991 unsold, and largely unsellable, goods from state factories were valued at some 230 billion yuan (or US$42 billion), the equivalent of 12 per cent of GDP (*The Economist,* 30 November 1991). Yet even a much more repressive government does not dare further alienate the urban masses by insisting on productivity reforms that would inevitably lead to a substantial shedding of labour.

On present evidence, it is not likely that during the next few years China will be able to solve the critical problem of the state-owned industrial sector, yet this is only one of several major structural weaknesses within its economy (Dwyer, forthcoming). Despite draconian measures that were implemented during the period of liberalization, including forced abortions and sterilizations on a massive scale, the population problem remains far from solved. The 'one child' policy, which was part of the period of liberalization, has shown promising results in the towns but in the countryside the policy was never vigorously implemented and from the mid-1980s was substantially relaxed. The result is a population that continues to increase by between twelve and fifteen million persons a year and the prospect of the continuance for the foreseeable future of a demographic situation that is in process, not only of producing increasing absorption pressures in the urban areas through in-migration, but one which, as the work of Potter and Potter (1990) in Guangdong has graphically illustrated, continually depresses agricultural initiative through the consumption of most of the fruits of progress by local population increase. In these circumstances, far from an efficient and prosperous agricultural sector underpinning the successful development of the secondary and tertiary sectors of the economy in the years ahead, China may well be faced by the possibility of having to meet the challenge of significant food shortages. Some specialist observers doubt that China can produce the 500 million tonnes of grain that would be necessary for an anticipated population of 1.3 billion by the turn of the century, at least not without a radical restructuring of both national investment priorities and commodity pricing in favour of the rural areas (Leeming, forthcoming). The Chinese economy is thus a fundamentally weak economy despite the well-publicized pockets of accelerated development that have emerged during the last decade or so: in the Pearl River delta, the area around Shanghai and in the Special Economic Zones of Shenzen, Zhuhai, Shantou and Xiamen. In thee special areas official attention and infrastructural investment, an increased measure of freedom for provincial and local authorities and new and more accommodating attitudes towards foreign capital have resulted in a series of spectacular industrial developments, in part producing goods for export. In 1989 direct investment into China totalled US$3,300 million, two-thirds coming from Hong Kong (*Far Eastern Economic Review,* 23 August 1990). Much of this investment, seeking cheap labour, went into the coastal 'honeypots'; and, of course, much was capital that could just as easily be withdrawn, as some was in the aftermath of the Tien An Man massacre.

Nevertheless, this type of development played a major role in the rise of China's export trade during the period of liberalization. Before 1978, China was characterized by a high degree of self reliance, and between 1950 and 1974 its annual volume of trade averaged no more than 4 per cent of GNP (Phillips and Yeh 1990). That figure has possible now been quadrupled, reflecting in part the fact that China's merchandise exports rose from a value of less than US$10 billion in 1978 to US$52.5 billion in 1989 (*Far Eastern Economic Review,* 23 August 1990).

Leaving aside Hong Kong, which in its trade relationship with China functions primarily as a conduit for Chinese goods going to other parts of the world and as a reception point for a proportion of China's imports, China's two major partners in this trade development have been the United States and Japan, with almost a quarter of merchandise exports by value now going to the United States. China's trade surplus with the United States has risen steadily over the last decade, to a figure of US$13 billion for 1991. At the same time, however, protectionist forces in the United States have become steadily stronger and the debate about China's MFN (Most Favoured Nation) status on the American market, which must be renewed annually, has become a significant factor in US politics. China's human rights record has figured prominently in the debate, as has its attitude towards arms control, the use of prison labour to produce export goods and its piracy both of technology and of intellectual property rights. In January 1991 the central government ceased the subsidization of foreign trade enterprises for losses made on exports (although some provincial governments still continue this practice), both to conserve capital and to improve China's trading image. A year later, an eleventh-hour agreement was reached between the United States and China over intellectual property rights which staved off the imposition by the United States of punitive trade measures. However, China still continues to walk a tightrope in respect of United States' approval of a vital part of its recently developed export trade. Should MFN status be withdrawn, it would be a most severe setback to the industrialization of the coastal 'honeypots'. It would also increase Chinese fears of being reduced ultimately to long-term economic dependence upon Japan, a possibility which is already regarded with extreme sensitivity within China, given the historical relationship between the two countries.

The collapse of Communist governments throughout the world has left China marginalized to a greater degree and more permanently in terms of international relations than it was even during the immediate aftermath of the Tien An Man massacre. The reduction of the military threat from the former Soviet bloc in particular has lessened China's importance on the world stage, since there is no longer any relevant concept of China 'balancing' the superpowers, an objective that was formerly one of its principal foreign policy goals (Segal 1988).

Although still an important Asian land power, China enters the mid-1990s with its decade in the world seen as a liberalizing power commanding favourable world attention over. Most leading politicians and many large-scale investors now see few compelling reasons to beat a path to China's door. There are many competing claims, notably in the former USSR and eastern Europe. A weak country economically, facing enormous demographic problems, with a precarious overseas trade and marginalized in terms of international relations, it is not likely in the immediate future that China will figure prominently in the anticipated economic 'take off around the Pacific Rim.

NOTE

1 One *mu* is equivalent to approximately one-fifteenth of a hectare.

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9

TRANSITION IN A CENTRALLY PLANNED ECONOMY: THE IMPACT AND POTENTIAL OF ECONOMIC REFORM IN VIET NAM

Richard Vokes and Ingrid Palmer

INTRODUCTION

Viet Nam, with an estimated per capita income of less than US$200 (ADB 1990) is one of the poorest countries in Asia. It has a rapidly growing population and for most of the 1980s the growth of population exceeded that of food grain production. The country has a severe debt problem with a debt-service ratio of over 60 per cent. The situation can only be aggravated by the recent termination of Soviet bloc assistance in the form of direct aid, subsidized imports repayable in roubles and preferential treatment in markets. The chronic shortage of foreign exchange since 1975 has left the physical infrastructure dangerously run down. Added to this is the legacy of a financial and economic institutional infrastructure created for a system of tight planning and centrally-administered resource allocation. This structure is accompanied by specific development management skills which are also now inappropriate.

Yet to many observers, Viet Nam is the economy to watch in the next decade. Recent reports by multilateral and bilateral aid agencies, while recognizing the very real problems the country faces, nonetheless emphasize the substantial potential for rapid growth and development. Much of this optimism stems from the progress made following the introduction of a radical programme of economic reforms at the end of 1986. Most significantly the economy has shown itself able to move forward in spite of the inevitable disruption caused by such a major economic transition. The private sector in light industry and services has also been so strong that it is now the key element of a strategy of employment generation. In effect, Viet Nam has demonstrated its willingness and ability to take on a painful structural adjustment programme and hold fairly well to the course. This is made all the more remarkable by the almost total lack of external financial support for the programme.

However, Viet Nam also starts with certain advantages. It has a rich natural resource base. Commercial oil production began in 1986 growing to 700,000 tonnes in 1988 and 2,500,000 tonnes in 1990. Since the publication of the Foreign Investment Law in December 1987 the response of foreign investment indicates good prospects for strong growth in oil exports and therefore for long-term underwriting of external borrowing. The country has seven million hectares of forests, coal reserves of at least three billion tonnes, and quantities of virtually every mineral. Exports of oil and minerals could give a basis for sustained economic growth for a very long time. The country also has a long coastline providing easy access for trade and offering considerable potential for the development of the fisheries sector. In addition, the country's human resources are already a relatively developed asset. The literacy rate is reputed to be 88 per cent and the labour force is unusually well educated and skilled for such a low level of per capita income. Viet Nam's presence in the region of the world with the fastest economic growth and some of the largest national markets will be another advantage now that it is opening up its economy to international trade and foreign investment.

Short of catastrophic war or a reversion to Stalinist style central planning it is difficult to see how the Vietnamese people can avoid realizing high incomes in the long term. The question is how do they get from here to there.

The Government seems ready to embrace a high degree of economic pluralism and liberalization. At the June 1991 Seventh Congress the outgoing party secretary Nguyen Van Linh outlined the political framework of future economic development. This confirmed the continued promotion of a multi-component commodity-based economy with a socialist orientation but with diversified forms of ownership. Market-oriented business organizations can choose their own spheres of activities, technical scale and forms of organization to achieve the highest efficiency in an environment of cooperation and competition. The international dimension to development received new attention.

> A developed commodity economy demands that we continue to overcome the state of autarky, partitioning and closed-door policy. Let all grass-roots units, sectors, localities and the entire economic system bring into full play their relatively favourable positions;…in order to strongly bring into full play domestic advantages and sources of development.
>
> (Nguyen Van Linh, reported in SWB 1991)

The situation in Viet Nam is changing very quickly. Much of what has been written on the economy in the last few years has already been overtaken by events. However, a review of the historical development model, and the limited and seemingly temporary impacts of the successive reforms since 1981, give some idea of how far Viet Nam has gone in the transition to a more competitive economy and points to the nature of problems still to be overcome. Very little reliance is placed on statistical information. The chapter ends with some agency estimates of aid requirements of the future strategy which is gaining common recognition among multilateral agencies.

PURSUIT OF THE DRV MODEL: 1975–79

The ultimate objective of the Democratic Republic of Viet Nam (DRV) development model was to prevent accumulation in private capitalist hands and dispossession of the peasants. The strategy chosen entailed rapid economic growth by the concentration of resources in large-scale, heavy industry producing equipment for other sectors. This was a crude means of forcing long-term growth regardless of economic efficiency. The policy instruments included a central plan and the administrative allocation of resources. Each enterprise in the state sector (covering virtually all industry) was allocated capital and inputs, and directed to produce certain products in specified quantities. Simple technical coefficients determined the relation between inputs (including labour) and outputs. Inputs were heavily subsidized and, therefore, output also. No deference was made to opportunity costs, market demand, profitabilities, or indeed any rational form of valuing resources. Agriculture was organized around collective production except for household usufructuary rights over a theoretical 5 per cent (in fact considerably more) of co-operative land.

This had long been the system in the north. In 1975 it was extended to the south so that the two economies could be integrated.

The south's more market-oriented structure of production was bound to present difficulties. In particular, resistance to collectivization on the part of the southern peasantry could be expected. But this was not to be an auspicious time for such experimentation for other reasons too. The country was emerging from thirty years of war with most of its physical infrastructure destroyed. Both north and south had previously been kept afloat by massive external assistance. Now some sources ended (Chinese in 1978 following the brief but costly border conflict, and Western in 1979) while others were drastically reduced. Finally, as luck would have it, poor weather affected harvests in 1977 and 1978.

Yet, even without these problems the hasty integration of the south and the Second Five Year Plan, 1976–80, would have been over-ambitious. Victory over the enormous military machine in the south and especially the speed of the collapse of the Saigon regime had resulted in a state of euphoria. The initial idea of a fifteen year reunification and transition period was abandoned in 1976 in favour of a more rapid process. Fforde and de Vylder (1988:60) refer to a 'sense of intoxification' that allowed the leadership to believe that Viet Nam could become industrialized by the year 2000.

The failure of the DRV model has been well documented (see, for instance: Fforde and Paine 1986; Beresford 1989; Vo Nan Tri 1990; Fforde and de Vylder 1988, Tan Teng Lang 1985 and Kimura 1989). The scale of the failure is shown by the difference between targets and results of the Second Five Year Plan (Table 9.1).

The reality of economic relations at the micro level was pointing, with increasing inevitability, to new policies. As shortages occurred, enterprises resorted to under-the-counter activities to procure inputs and maintain output targets. *De facto* reform was beginning from the bottom (Fforde and de Vylder 1988:29–30). Inputs were being obtained and output disposed of at different sets of prices. State enterprises were finding that to supplement official sources of supply they had to offer something in return that was wanted. In the process they found themselves diversifying production activities. Although this was still illegal, this strategy could, ironically, help the enterprise to fulfil its mandated targets. This was not lost on the political leadership as the 1981–82 economic reforms were to show.

In agricultural incentives to work well on collectivized production were weakened by the poor management of co-operatives together with the fixed work norms and the work-point system. Co-operators found more incentive to work on their private plots. Starved of capital

Table 9.1 Viet Nam: growth rates (percentages) for the Second Five Year Plan (1976–80)

	Target	*Actual*
Income	13–14	0.4
Agricultural production	8–10	1.9
Agricultural production	16–18	0.6

Source: Kimura (1989)

investment productivity could not be improved through new technology. Moreover, by the late 1970s the expansion of the rice area was reaching its natural limits. Together with reduced food aid imports, the result was a severe food shortage and rising food prices. This had an inflationary knock-on effect on state enterprises which paid their workers partly in rice.

PHASES OF REFORM

Decentralization of Management Operations, 1979–85

The economic crisis precipitated a recognition of what was *de facto* occurring. In 1979 the Sixth Plenum of the Fourth Congress of the Party indicated sympathy with the pressures rising from the micro level by allowing experimentation without actually legalizing it. The only clear measure taken was the abandonment (temporary in the event) of the collectivization of southern agriculture. In the atmosphere of political tolerance output increased as producers and workers enjoyed income incentives.

In 1981 there were two major reforms which illustrate well the limited, but temporarily successful, approach to economic reform. The first was the official authorization of the contract system between co-operative and farming household which had already been widely used in various forms. This contract stipulated that the household should produce a fixed quota for which it would receive labour payments. Produce in excess of this quota could be disposed of as it wished. The co-operative would allocate the household land (taken from previous collective staple production) and take care of the land preparation, water supply and seed supply. Although the actual terms of trade for farmers did not improve at this time, the right to sell the surplus acted as an income incentive.

This difficult exercise of allocative powers by the co-operative reduced its burden of administering the prevailing chaos, and perhaps prevented collapse of the co-operative system. In effect, co-operative plans were being implemented by households. Since the household economy was seen as a unit of the co-operatve system, any reform leading to improvements in the efficiency of these units could be said to increase the internal efficiency of that system. The limitations of this reform lay in the uncertainty surrounding future application of the co-operative's retained powers; land allocation, and the right to adjust the quota, thereby effectively controlling the relative 'prices' of land, labour and inputs.

The new household economy led to significant growth in agricultural output between 1979 and 1982. But in the following two years agriculture stagnated. Economic slack (very largely in unused or poorly motivated labour) had been taken up, and the raising of the quota for the co-operative weakened the incentive element considerably.

The second major reform concerned state-owned enterprises. In 1981 the Three Plan System was introduced for industry. Under Plan A (the DRV model) the factory used inputs supplied by the state at subsized prices in order to supply the state with fixed quantities of specified goods. Plan A had to be given priority over Plans B and C. Plan B products were the same as Plan A products but the enterprise could procure inputs and dispose of the output freely. Plan C permitted diversification into any other products, with inputs and outputs free of all control.

The rapid industrial growth in the early 1980s demonstrated how static efficiency in this sector too could be substantially improved without an injection of new resources. But it, too, constituted a fall-back position to protect the state sector in a period of great shortage. Fforde and de Vylder (1988) comment that while the reforms demonstrated scope for short-term benefits from improvement in resource allocation and utilization of spare capacity, it did not lay the foundations for long-term development.

This period is also noteworthy for use of the expression 'anarchy of the markets'. Under the reforms state enterprises were effectively straddling two systems and facing new contradictions (Van Brabant 1990). Worse, because the policy of decentralizing management of operations was creating a situation in which government priorities were being threatened, there were attacks on the free market and attempts to recollectivize agriculture in the Mekong. The 'rules of the game' were not yet assured. In 1983 there were moves to control this 'anarchy of the markets' by getting private entrepreneurs to register, collecting taxes and ensuring priority of input supplies to state enterprises.

Yet the terminology of the reform debate was altering perceptibly. In 1982 the Fifth Congress had given due recognition to the respective interests of the state, the collective and the family. In the proposed scheme of things the state sector would not have a leading command role but would promote harmony and balance. It was also intended that producers would have free relations with suppliers and customers, and prices reflect costs and values. The ambivalence surrounding this became apparent in the clamp-down in 1983. Yet it can be interpreted as a precursor of much later events, a statement of intent by one political faction.

Price Reforms, 1985–87

At the Eighth Plenum of the Fifth Congress in 1985 the decision was taken to undertake a prices and wages reform. The purpose was to deal with the problem of high free market prices (Fforde and de Vylder 1988), more specifically the difference between planned and free market prices.

Wages reform consisted of gradually replacing all consumer price subsidies hidden in wages by the full monetization of wages. To compensate for this, nominal wage levels would rise. At the same time real wages in the state sector would be set at levels to encourage higher labour productivity. Therefore incentives were to accompany the removal of the subsidies component of wages. In order to close the gap between open market and planned prices, official input prices would be raised. While this would further reduce subsidies, and therefore the budget deficit, the accompanying stricture that there would be a proportionate increase in loans (from newly autonomous banks) to cover these purchases meant that the burden of underwriting inefficient state enterprises was to be shifted from the budget to the now commercially-based banking system. The logic of this was that either the enterprises were expected to be able to repay loans from profits or that the Government was ready to accept bankruptcies and unemployment in the state sector.

But it was the ill-judged, or ill-timed, monetary reform that scuttled the price reforms. The purpose of this reform was to rein in consumer demand. To this end one new dong was exchanged for ten old dong (up to a limit) and remaining dong assets had to be kept in a bank for a long time. However, this did not affect the large 'overhang' held by private individuals because much of this was kept in the form of gold and dollars. But it had a devastating impact on the dong assets of state enterprises. The ensuing liquidity crisis resulted in a massive bail out via the budget and substantial inflation.

Table 9.2 Viet Nam: disbursements under an expanded official development assistance programme from DAC and multilateral sources (million US$)

Year	*Lower estimates*	*Upper estimates*
1	400	600
2	600	800
3	800	1000
4	1000	1200
5	1200	1400
TOTAL	4000	5000

Source: UNDP (1990)

It is not clear how the weak management of the state sector was expected to survive such a severe monetary reform. A UNDP report (1990) comments that the resources made available to the state sector did not increase enough to meet the rise in prices. The issue of financial discipline also implies that state enterprises were able to make choices on resource use. Moreover, as Van Brabant (1990) points out, while state enterprises were supposed to be more self-supporting with the new prices they still suffered very detailed central planning on outputs, inputs, salaries and the like.

Private Sector Promotion and New Sectoral Priorities, 1986–88

The Sixth Congress in 1986 ushered in a new period of liberalization with Nguyen Van Linh as the new Party Secretary. The reforms introduced at and after the Congress consituted a much more radical and far-reaching package of change. The Congress was held against the backdrop of a rapidly worsening economic situation in the mid-1980s. There had been a significant fall in the growth rate in 1985 and 1986, while fiscal and monetary problems intensified. This led to further disillusionment with the centrally planned economy which, in turn, greatly weakened the position of the more hardline conservative leadership closely identified with attempts to keep the reform process within a carefully managed socialist framework. In effect, the decision was taken to replace Soviet-style Stalinist central planning with a market economy while at the same time trying again to re-establish macroeconomic stability.

There were a number of key elements to this reform programme (Fforde and de Vylder 1988; Vo Van Kiet 1990). First, the non-socialist components of the economy–essentially the informal sector–were now to be encouraged to play their full part in economic development. Second, in marked contrast to the earlier period, priority was now to be shifted from heavy industry to agriculture in an effort to raise food supplies and expand the domestic market for consumer goods by raising rural purchasing power, and to increase the production of exports. Third, the bureaucratic centralized system of economic management based on state subsidies was to be abolished and replaced by a decentralized system of economic management in which efficiency and profitability would be the order of the day.

The Congress had some immediate effects. In the first few months of 1987 restrictions on free market private business activities were lifted in many areas, including Hanoi and Ho Chi Minh City, while local customs posts and checkpoints that had been used to restrict internal movement of goods were removed. Other, more fundamental changes, came more slowly. This was partly due to the continued resistance to the changes not only from the conservatives in the leadership but, more importantly, from the party cadres, who clearly had much to lose from the shift away from the centralized system of planning and management. But it was also due to the fact that while the Congress had provided a clear statement of intent it did not provide a detailed implementation strategy. This task, including preparing the ground for the promulgation of a series of policy decrees, was undertaken in 1987 by a series of Plena of the Central Committee.

Some of these decrees constituted a notable initiative in the field of the legal status and rights of the family economy and household production in agriculture. The state accepted and guaranteed rights to property, inheritance and income of units and individuals in the private sector. In a move clearly designed to boost production the role of agricultural production collectives was downgraded in favour of greater emphasis on individual production units. New contracts were introduced allowing household units to retain as much as 50 per cent of their rice output and, even more significantly, farm households were given leases for up to fifteen years (ADB 1989). Subsequently this was extended to twenty years for annual crops and to thirty to fifty years for industrial crops.

By July 1987, a major restructuring of the banking system had been initiated and subsidies on non-essential consumer goods reduced. By October subsidies on essential goods, except rice, were also cut bringing the price of most commodities close to their free market levels. In December, after much debate, a new Foreign Investment Code was published. The new code was not only more liberal than the 1977 one but was also regarded by many observers as the most liberal in South East Asia (Duiker 1989).

Above all, the state was now actively seeking the commercialization of internal and external trade. This approach, called 'socialist accounting and business', meant that resources would be acquired and disposed of through commercial, not administrative, means. Exempt from this, and still bound by the Three Plan System, were state enterprises in thirty-five Key Enterprise Unions, covering about 50 per cent of output of major items such as coal, electricity, fertilizer, steel, paper, chemicals, transport and communications, textiles, and electronics. But apart from these industries the apparatus of administrative control and input allocation would end.

A new statute on co-operatives gave them greater independence. They were now free to buy and sell all assets (except land) and inputs and outputs. This would have the derived effect of more correct costing of resources allocated to households. But the co-operative, as the tax unit with an interest in households' future profits, could still manipulate profits and incentives through levies.

Although these reforms were undoubtedly far-reaching in the Vietnamese context the outcome in terms of economic improvement was heavily influenced by a disastrous rice harvest in 1987. As a consequence the agricultural sector grew by only 2.5 per cent (ADB 1989). At the same time inflation rose to over 400 per cent, aggravated in the short term by the process of price liberalization and the rice shortage. Yet industrial production (mainly from the private sector) increased by 8.9 per cent in 1987 (Hiebert 1990). In the next year strong recovery of agricultural production helped the overall growth rate to recover. But inflation continued to increase, reaching almost 500 per cent.

In the urban areas it was the costs rather than the benefits of reform that were most evident at this stage. While the lifting of restrictions on private trade led to an increase in the availability of food, especially meat and vegetables, and basic consumer goods, wages in the state sector failed to keep up with rapidly increasing prices. As a result, most urban households were forced to engage in multiple job-holding strategies to make ends meet, frequently engaging in petty trade or opening up small shops in their homes. Remittances from Vietnamese contract workers in Europe and Iraq, and from refugees settled overseas, undoubtedly helped to keep many families afloat at this time. In the rural areas, the impact of the reforms was more positive. The freeing of internal trade coupled with changes to the contract system and procurement prices had already resulted in an increase in rural incomes. One of the most obvious manifestations of this was the building of new houses by farming households.

In spite of these positive signs, the view of many observers was that the new reform programme had, like its predecessors, become bogged down. For Duiker there was a massive gap between the rhetoric of reform and action on the ground. Investment was still biased towards industry to the neglect of the vital agricultural sector while the industrial sector continued to suffer from the heavy hand of the state. He concluded that 'more will be required than is currently contemplated to turn the Vietnamese economy round' (Duiker 1989:357). Fforde and de Vylder (1988) while praising many of the radical steps taken by the leadership, nonetheless reached a similar conclusion that much more was needed to be done. Key problems were the piecemeal nature of the reforms, especially at the macro level, and the continued uncertainty over what was and was not allowable under the policy of renovation, since many of the reforms remained declarations of intent rather than having the authority of law. While the Government was urging financial discipline on state enterprises and seeking an end to state subsidies, it still sought to impose planning targets. This contradiction was a cause of another major problem: the ensuing 'softness' of the Government's own fiscal and monetary policy. Even the much heralded new Foreign Investment Law remained unclear on many aspects. A sustainable reform programme needed to cover both macroeconomic and microeconomic aspects, as well as institutional and legal reforms, in a coherent way.

> The vicious circle of ineffective measures, and a generalised mistrust of fiscal and monetary policies–and of the domestic currency–must be broken, and an important part of the

> economic reform measures must therefore serve to create confidence: people must perceive the reforms as being both comprehensive and effective.
>
> (Fforde and de Vylder 1988:149)

It seems that a similar conclusion was reached by the leadership itself. Towards the end of 1988 both the party General Assembly and the National Assembly resolved that in spite of the acute problems facing the economy, some of which had been aggravated by the reform process itself, the reform programme was to continue. Top priority was now to be given to tackling the macroeconomic problems through monetary, fiscal and budgetary policies, and to foreign trade and investment issues (Nguyen Xuan Qanh 1989).

Dramatic Economic Swings, 1989–91

Major fiscal and monetary reforms were introduced early in 1989 accompanied by the adoption of an extremely tight monetary policy. Banks, left responsible for their own solvency, raised interest rates to very positive real levels at a time when inflation had already begun to fall rapidly. Subsidies to state enterprises and part-payment of wages in kind were to be stopped. All price controls except those relating to energy and transport were removed. Alterations were also made in the foreign trade regime and to exchange rate policy. In March the three dollar rates were unified and the rate devalued 28 per cent to approximate the free market rate, with the Government indicating that the official rate would henceforth be allowed to float in line with market conditions. In another significant development, restrictions on the import of gold were lifted, a move that resulted in a significant drop in gold prices.

It was to appear as if Viet Nam had managed a stabilization package which had broken through the inflationary barrier. Inflation dropped from 470 per cent in 1988 to 36 per cent in 1990, falling sharply during the first half of 1989 (with prices actually falling between May and June). In mid-1988 the official-to-black market exchange rate was 1:5, while for domestic goods the official-to-free market ratios were as high as 1:10. Yet in early 1990 the official and free foreign exchange rates were only about 10 per cent apart and almost all domestic goods were priced at market value.

It is not difficult to find the reasons for these movements in economic indicators. There was a bumper rice crop in 1989 (including two good harvests in the Mekong delta). The whole agricultural sector grew 6.4 per cent (ADB 1991). The much improved rice position not only had a direct effect on prices but also helped to effect the fiscal reform of ending subsidies to state enterprises since the (still remaining) rice rations to employees were easier to finance. The record rice crop also meant that Viet Nam could once again export rice. A total of 1.4 million tonnes was exported in 1989, making Viet Nam the third largest rice exporter that year. The US$315 million earned from rice exports accounted for 20 per cent of export earnings (*Far Eastern Economic Review,* 10 May 1990). The improved supply position was also boosted by increased availability of consumer goods from Thailand and China. At the same time the strongly positive real interest rates offered to depositors mopped up much liquidity from potential consumers. Wood (1989) also suggests that stocks of inputs were put on the market because it was now more expensive to hold them.

Nevertheless, the strict implementation of fiscal restraint on state enterprises for at least six months caused a significant minority to go bankrupt or sell off assets. Industrial output as a whole fell by 2 per cent during 1989 (ADB 1991). Much dislocation ensued and unemployment rose. During the first half of 1990 output of machinery declined by 30 per cent, fertilizer by 23 per cent and textiles by 7.9 per cent (Hiebert 1990). This time both the state and private sectors shared in this negative growth.

Despite the problems of industry the dramatic turn around in 1988–9 led to an upsurge of optimism. However, certain events of 1990–91 indicated that there was still a long way to go before Viet Nam was on a sustainable growth path. In the second half of 1990 inflation started to increase again. Price increases reached a monthly rate of 13.2 per cent in January 1991, compared with 3 per cent in January 1990, and the annual rate was predicted to rise 400 per cent by the end of that year (Hiebert 1991). The price of rice tripled and the price of fuel and fertilizer doubled between September 1990 and April 1991. Savings deposits in banks fell. Lack of confidence in the currency led to a flight into gold and dollars on which import restrictions had been lifted barely a year before.

So why did the miracle not continue? There were several reasons for this. First, incentives to farmers had worked quickly through to a new maximum efficiency with given technology and inputs. Further advance depended on larger amounts of fertilizer and, in the long term, on investment in higher factor productivities. Second, as the succession of banking scandals in 1990 revealed, the banks did not have enough to back up the high interests rates they were paying, and many co-operative and bigger banks were using new deposits to pay the interest on the old ones. Lending rates were often lower than deposit rates. Third, subsidies to the state sector were, in fact, still fuelling a growing budget deficit. Fourth, the cost of imports, especially fuel and raw materials, rose as the Soviet Union and Eastern Europe reduced aid and cheap inputs. Already in the first half of 1990 foreign aid (nearly all from former CMEA countries) was down by more than 60 per cent (ADB 1991). Larger amounts of aid from Italy, France and Australia did not compensate for this.

Although past reforms were not acted on in a thorough way, the momentum of regulatory reform continued. Fiscal reforms (turnover, profit, and special consumption tax laws) were passed during mid-1990 with the aim of shifting revenue from state enterprise sources to income and sales taxes. The reform also provided for the even-handed treatment between state and non-state sectors. Further taxes were planned for 1991 on imports, land and income. But this was also a period when the Government responded to criticism that entrepreneurs needed to have a clear set of 'rules of the game'. In June 1990 the Business Law Reform put in place the legal framework for joint-stock companies. An amendment to the Foreign Investment Law allowed individuals as well as companies to enter into partnership. The role of the labour market–or rather the lack of it–was seen as one of the main constraints on private sector activity. In August 1990 a Labour Statute Law weakened controls on hiring and firing of labour.

Probably of greatest medium-term and long-term significance was the banking sector reform. In October 1990 the State Bank was formally turned into a central bank and four autonomous commercially-based banks (for commerce, foreign trade, agriculture and investment, respectively) were established. However, this delayed reform is a good example of institutional reform trailing economic events, the orderly and sustainable progress of which that institutional reform was a prerequisite. In this case the delay in banking reform and promotion of commercial banks had led to the growth of a poorly-related informal credit market (fringe co-operative banks) with the spectacular collapse of one bringing down many others. Some 2,000 small private enterprises that had either relied on this credit market for capital or had deposited savings with them collapsed (ADB 1991).

The return of soaring inflation meant that real interest rates became negative again. Against inflation of 7 to 9 per cent a month in the last quarter of 1990, depositors were being offered up to 4 per cent. This, together with the banking crisis, led to a reluctance to deposit and a flight from dong into gold and dollars. At the same time priority state enterprises were able to borrow at 2.4 per cent with non-priority industry having to pay 4 per cent (ADB 1991). Discrimination favouring the state sector was narrowing but was still there.

Many still see the unwillingness to allow state enterprises to go to the wall as a lack of political will, and that failure to maintain this reform means that all the pain of adjustment of the last two years will have to be repeated. But it is also commonly believed that the potential of the private sector, in terms of both output and employment, should make any dislocation short-lived. The validity of this belief is crucial to a detailed package of mutually reinforcing reforms because employment remains a hot political issue. Many government and state enterprise employees have lost their jobs. Open unemployment in 1990 was as high as 10 per cent, the inclusion of underemployment and disguised unemployment would of course give a much higher figure.

But external events are also having their impact on employment and output. More significant than state sector loss of jobs has been the withdrawal of military forces from Cambodia. In addition, the upheavals in Eastern Europe and the Gulf War caused the repatriation of about 160,000 contract workers. Czechoslovakia intends to return 37,000 by 1995 and Bulgaria 25,000 by 1992. As many as 17,000 have returned from Iraq (ADB 1991).

The cut-back in aid and trade credit from the USSR has led to a significant reduction in imports of oil and petroleum products from the USSR; particularly fertilizer which is certain to have an adverse impact on the key agricultural sector. The lack of oil and fuel products also aggravates the shortage of power which has caused industry to work shorter hours.

The damage done to the economy and the reform process by these external events is serious. But underlying long-term optimism remains. A measure of external confidence in the economy can be seen in the steady rise of foreign investment. By October 1989, ninety-six projects, with a total capital value of US$700 million had been approved (ADB 1990). By early 1991 investments given licences had risen to US$1.4 billion (ADB 1991). Much of this has been connected with oil exploration and the development of the country's oil industry. But the prospects for significant growth in oil exports must, in turn, increase the level of confidence in the long-term future of the economy.

In the short term the Government is clearly concerned about worsening unemployment and its political ramifications. In the run-up to the Seventh Party Congress in June 1991 there was growing concern over political instability. It is precisely in helping to minimize adjustment costs that new external resources are necessary. The ADB recently stated that new concessional resources were urgently needed, otherwise 'the effectiveness of the policy of reform which has been implemented at substantial social cost may be impaired and pace of reform slowed' (ADB 1991:127).

Should the Government wish to hesitate now over a fully comprehensive and internally consistent reform package it could easily plead mitigating circumstances. Nevertheless there are serious criticisms remaining which mainly concern the macroeconomic and legal framework for micro level responses. There are also some sectoral issues that have yet to be addressed.

FUTURE POLICY CONSIDERATIONS

The Economic and Legal Environment

The Government has the objective of doubling per capita income over the next ten years. Given the resource base and the relatively skilled and well-educated workforce this is in the realms of possibility. But the problem is getting through a period of adjustment.

Prices do not yet reflect the scarcity of current resources, and certainly not border prices. There is still scope for reducing subsidies and staffing levels in the state sector. On this depends much of the ability to put in place an effective monetary and fiscal policy to secure macro stabilization.

The earlier micro reforms exacerbated macro destabilization because the greater use of free market prices to procure resources for the state sector incurred increasing fiscal deficits. With every twist of shortage and stronger free market pressures, state enterprises had to pay higher wages and input prices for their Plans B and C. The Government budget went further into deficit with each round of bailing out state enterprises. Good harvests and trying to shift the burden of funding from budget to banks could not be relied upon to save the day. The only solution was a political willingness to let part of the state sector collapse. Without this a credit squeeze as part of a monetary stabilization programme would reduce overall micro-efficiency by squeezing the small, private, efficient enterprise before the larger, inefficient state one was affected. It has already been demonstrated that equal treatment for state and non-state sectors is not yet assured. One reason is the underdeveloped state of the credit infrastructure outside provincial and district centres.

Although the reforms of the 1980s led to some improvement in short-term micro-efficiency there has been no improvement in intersectoral competition. Until 1989 the policy reforms did not include a freeing or a counterbalancing correction of capital allocation between economic sectors, let alone between state and non-state. Regardless of the rhetoric the share of agriculture in capital allocation did not rise during the 1980s. The recent banking reforms which allow for sectorally-specialized competing banks should go some way to creating inter-sectoral competition for working capital and investment loans. But confidence in the new banking system needs to be built.

A weakness of the DRV model that has not been fully corrected is official attitudes to the role of foreign trade. Fforde and de Vylder (1988:130) noted that, 'instead of regarding trade as a way to participate in the international division of labour on the basis of comparative advantage, the planning authorities tended to regard exports as a residual sacrifice, justified only as a means to finance "necessary imports"'. Moreover, these necessary imports have had to be funded by the exports of the users, an implicit definition of agricultural self-sufficiency in official thinking criticized in the FAO's agricultural sector Review (FAO 1988). This practice has applied not only to sectoral foreign exchange self-sufficiency but even to enterprise self-sufficiency. As the Review pointed out, 'Enterprises or sub-sectors which now export are not necessarily those which can make the best economic use of foreign exchange (even for further export development)' (FAO 1988:122). The exhortation to competition and exploitation of comparative advantage made at the Seventh Congress may lead soon to further deregulation of the foreign trade sector.

But there is a completely different aspect to creating a favourable economic environment: establishing the 'rules of the game'. When *de facto* is leading *de jure* on many economic practices, all kinds of suppliers and producers (households, individuals, co-operatives and factories) can never be certain what is permitted or will be tolerated, what is temporary and what is permanent. Some reforms have been expressed as declarations of intent, not in the form of laws. Moreover, although on paper most of the essential reforms concerning the rules of the game are in place, implementation of any new legal framework depends on the motivation of all actors. What is notably still missing is a clear articulation of property rights. Long-term usufructuary rights do not offer the same basis for investment confidence. Nor does it allow the competition and allocatory efficiency that come with the right to sell or hire assets.

The Government will need to devise a new role for itself, one which creates a sympathetic environment of macro stabilization and micro incentives in which numerous financially autonomous production and trading units can flourish. The application of indirect control through markets provides a better basis for a coherent and consistent package of policies than the direct intervention of the command economy. While the Government has gone far in shifting its development management apparatus in this direction and done much to improve the institutional infrastructure of a market-oriented strategy, supply response will also depend on the physical infrastructure and injection of new resources. The spurts of economic activity following each initiation of liberalization consisted largely of a more efficient rearrangement of factors of production and utilization of slack labour capacity. A crucial question now is to what extent will the fine tuning of those indirect controls still be dependent on an injection of external resources. To see what is entailed some comments are made about the needs of the two main sectors, agriculture and industry.

Agriculture

Agriculture is seen as the priority sector because of the vital need to expand food production, widen domestic markets by raising rural incomes and expand exports. Recent recovery in rice production has engendered a new feeling of optimism. But the literature generally tends to suggest that much of this improvement is a one-off upward shift in supply following recent land leasing and price reforms; although the more recent pronouncement of fifteen year leases with yield and taxes fixed for the first five years (World Bank 1989) might prove a further incentive to try for even higher yields. The UNDP report assumes that institutional reforms will increase production further through incentives to improve on the efficiency of resource allocation. However, it also admits that farm households, particularly in the north, have few more resources to invest except their labour (UNDP 1990).

There is widespread agreement in the literature that the strategy for the agricultural sector should be to place emphasis on investments with quick pay-offs, even if this means rapid growth of imported inputs. The reason is the significant potential for land productivity improvements from greater application of chemical inputs. It is assumed that with adequate fertilizer and pesticides agricultural output will increase by 3 per cent in 1991 and 4 per cent in 1992 (ADB 1991). This compares with only 1.2 per cent in 1989 when reforms went ahead but the supply of chemicals was inadequate.

But there would seem to be some difference of opinion as to when to activate, or re-activate, some land improvement schemes. The FAO (1988) Sector Review pointed out that scope for increases in rice production undoubtedly exists, especially through reclamation and rehabilitation of drainage and irrigation systems in both the Red River and Mekong deltas. The World Bank (1989) report implies that instead of proceeding with the Government's priority of land reclamation and new irrigation the level of inputs should be increased.

Clarifying regional development strategies is acquiring urgency in the planning process. The looming danger of the south taking off and leaving the north behind cannot be ignored. But associated with this issue of regional equity is that of planning comparative advantages and complementarity between the regions. Agency reports, seminars and individual writers appear unanimous that localized food self-sufficiency has to end. If the south is to continue its specialization on food, the north must produce goods demanded by the south as well as industrial crop exports. But the pace and extent of that specialization will also depend on long-term investments in land improvement and in technologies. In the haste to exploit the efficiencies of the market based on today's resource endowments, it is easy to forget that long-term public investment creates external economies for tomorrow's investments.

The World Bank (1989) gives a warning of what focusing on the short-term market could mean for national research. There are about forty national research institutes concerned with agriculture. They have core budgets covering about 25 per cent of salaries. They earn the rest through a contract research system which inevitably responds to the short-term needs of farmers and local organizations. There is no basis in this for long-term research which may well have to depend on provisions through external assistance.

None of the multilateral agency or individual reports doubts that large yield increases relate to the use of more fertilizer. Fertilizer use in Viet Nam is amongst the lowest in Asia (FAO 1988). But for greater application of inputs small farmers would need access to credit, and the banking infrastructure is still weak at village, or even district, level. This seems to be the reason for frequent suggestions that co-operatives have an important role to play in credit supply. In the climate of privatizing so many of the co-operatives' supply and servicing functions, it is conceivable that they could act as village-level credit brokers for the banks. However, the World Bank cautions that credit should not be made direct to farmers via procurement organizations or imput suppliers who can negotiate delays and unfavourable barter prices (World Bank 1989). The key would seem to be promotion of supplier-competition and farmer-choice, with favour being shown to co-operatives wherever private sector activity is slow to develop, as in the north where unfortunately the co-operatives are historically of the collective variety rather than the south's predominant service co-operative. But any solution to the credit delivery problem will not be realized in the short term. It may have to await implementation of one of the many training schemes being planned by the multilateral agencies.

However, it is not just a case of assessing co-operatives' ability to stay in their former line of business in a competitive market. With a rural strategy emphasizing links between agriculture and industry, co-operatives are also being presented as a possible vehicle for promoting new rural industry through technical and credit services. One way or another the co-operative will move from being a vehicle for surplus extraction to one of competing in the services market.

There is appearing a social cost to the demise of the agricultural co-operative. Previously its levies on farmers would support the social infrastructure of the village. Now the UNDP (1990:88) comments that 'With reduced financial support from the co-operatives, rural health stations, schools and creches face difficulties'. The likely shift from localized food self-sufficiency offers another worrying welfare aspect of the reforms. The same report argues that family access to food depends on income, which will only increase through higher agricultural productivity and new activities in the rural informal sector. This, of course, is the 'food entitlement' path to nutrition. But there is no existing backup organization to safeguard nutrition standards during the likely dislocation before new income is generated.

The FAO (1989) Sector Review devoted much space to a critical examination of the extension service and its needs. Its conclusion could be interpreted as seeing the present extension service as an irrelevancy and certainly incapable of delivering the proposed new agricultural strategy. The World Bank report described the government service as being of high density but low qualifications (40,000 extension workers have only primary education). Inevitably under the command system it used the 'top down' approach. New modes of approaching farmers and the future demands of new crop mixes and new technologies require a complete overhaul of extension services, or what the World Bank called a 'fundamental restructuring'. In the meantime private extension contracts between farmers and between individual extension worker and farmer are increasing in frequency.

Present agricultural marketing margins are very large (FAO 1990; see, for instance, the paper by Peter Timmer, on 'Price Policy for Agricultural Products and Inputs'). If they can be reduced there will be less pressure to increase product prices further. The Government faces the central dilemma of agricultural pricing policies: how to provide an incentive to producers and to boost rural incomes while safeguarding the welfare of the urban population. This dilemma would be less stark if marketing margins could be reduced. But this will depend heavily on available resources to invest in physical and institutional infrastructures.

Outside of the rice sector, foreign investment is likely to play a key role in the development of export agriculture. Some investments, particularly by Thai companies, have already been made in prawn farming and other agro-processing activities, while plans for new investment in livestock and animal feed production are well advanced (*Far Eastern Economic Review* 18 July 1991).

Industry

Given the level of per capita income Viet Nam has a comparatively large industrial sector. In 1988 industry accounted for 30 per cent of GDP and 14 per cent of employment, against agriculture's 40 per cent of GDP and 73 per cent of employment. What is surprising is that of the total of about 2.9 million workers in industry as many as 2.1 million are in the non-state sector. The state produces 77.9 billion dongs' worth of output and the non-state sector 60 billion dongs' worth. Labour productivity is obviously much lower in the non-state sector but its use of capital is assuredly more efficient. However, the two sub-sectors are not directly comparable. The non-state sector predominates in light industry (much more so than in India or China). While the private sector can correctly be described as much smaller in scale, the co-operative part includes collectives employing hundreds (for instance in garments and furniture).

Throughout the reforms of the 1980s the non-state sector has shown a larger and steadier increase in employment. Dislocation arising from the reforms has been greater in the industrial sector than in agriculture because industry is more involved in forward and backward linkages between primary, intermediate and final goods markets. As these markets shifted their relative positions and become freer so the linkages had to undergo transformation. At the same time the small-scale informal sector saw its opportunities and experienced rapid growth in 1988 and 1989. In 1989 the Plan for industry was virtually abolished. All that was left were a few firms relying heavily on imported inputs from the Soviet bloc. Industry as a whole is expected to grow 6 per cent in 1991 and 7 per cent in 1992–faster than agriculture (ADB 1991). These hopes rest largely on a strong response from the informal sector. Recognition of the importance of the non-state sector came with Regulation 16 which laid down liberal conditions for growth of these production units. Furthermore, it is the expansion of the private small-scale subsector, even more than growth of agriculture, that is now relied on for creation of employment during the next few years. Over the years 1991 to 1995 it is hoped that another two million jobs, or a doubling of this kind of employment, will be created in small-scale and handicrafts, in rural as well as urban areas. But this will require an investment of US$1 billion (UNDP 1990), which is considered unlikely.

Foreign investment has already begun to play a key role in the development of industry and will be crucial to its growth in the short to medium term, providing improved technology and management as well as access to fixed capital. Foreign businessmen talk of Viet Nam being the next low labour cost destination of foreign investment, attracted not least by the high level of literacy and the adaptability of Vietnamese workers. This would be in accordance with the Government's aim of generating employment through labour-intensive industry. Most of the foreign investment in the industrial sector has gone into light manufacturing, including textiles. This matching of intentions offers the best hope that when the embargo is lifted new external resources do not cause an inflow of light consumer goods imports to undermine incentives to invest in light industry. However, there must be concern that foreign investors see the virtues of the Vietnamese worker mostly in the more capitalist south. Already between 60 and 80 per cent of this investment has gone to the south, creating greater economic differentials between north and south.

Despite rapid progress in the last few years there are a number of constraints on further industrial expansion in the short term, particularly concerning the state sector. There is the question of identifying those industries or production units that are not currently efficient but could be made competitive in import-substitution or export promotion. Issues of obsolete equipment or lack of spare parts can cloud this question. The severe constraint of very weak infrastructural facilities, including the underdeveloped commercial banking system, has to be dealt with. Foreign exchange may have to be deliberately allocated between those industries supplying exports and those supplying the domestic market if certain objectives are to be met. And there is a need for regional development programmes which will prevent the differential between north and south increasing while at the same time encourage their respective comparative advantages. Planning to overcome these problems is complicated by the present low level of integration both beteen manufacturing enterprises and between industrial and agricultural sectors. Judgements have to be made about where potential profitable integration lies.

Formidable as these problems are, or perhaps because of their nature, the World Bank (1989) identifies lack of management expertise as the key bottleneck of the state enterprise. It states that priority should be given to managing the capital stock more efficiently rather than concentrating on replacing outdated equipment. If necessary loss-making parts of enterprises should be closed down. There should be a drive to maximize profits, not just make any profit. Marketing expertise is also needed to find new markets or to bid existing markets away from others. The ‘unions’ of state enterprises do not constitute an appropriate institutional framework for competition. For good measure the World Bank report adds that wages should reflect scarcity value in order to ensure the most efficient use of scarce technical and managerial skills. Moreover, since the private sector produces few goods that compete directly with state enterprises’ products, there ought to be scope, in the short term, for complementarity. An example given is private sector repair and maintenance of state sector equipment.

This strongly market-oriented approach of the World Bank report to rationalization of the state sector is tempered with an appreciation that some things which are floundering now may have a promising future with some help.

> During the first year or two in which state enterprises are forced to stand on their own financially it is probably a good idea to allocate some subsidized credit to the enterprises having difficulties. With some time to adjust and a small amount of funds, many of these enterprises will be viable.
>
> (World Bank 1989)

But subsidies must not be permanent.

A key problem immediately affecting industry is the energy shortage. While energy materials are in abundance in the country, it will require a large amount of capital to develop them sufficiently to support new industrial capacity.

THE ROLE OF EXTERNAL CAPITAL AND FINANCE

Since 1975 Eastern Bloc support for infrastructural development, hydroelectric power, cheap imports and balance of payments support was crucial in keeping Viet Nam afloat. In 1989 the country faced the prospect of losing this support and having to pay for these resources at world prices and in dollars. By the first half of 1990 foreign aid, mainly from the CMEA countries, was estimated to have declined by more than 60 per cent. Until 1989, 100 per cent of the country's fuel and cotton and 80 per cent of its fertilizer came from the USSR. In 1990 only 60–70 per cent of fuel and 50–60 per cent of fertilizer came from this source (Hiebert 1990). From the beginning of 1991 there has been a sharp reduction in aid while the moves to balance trade with the USSR have been accompanied by increases in the use of hard currency. Industry has suffered from a shortage of inputs from and exports to former CMEA countries. In addition about US$150 million of non-convertible currencies will be steadily lost through the repatriation of contract workers. The United States-led embargo means that aid from other bilateral sources is still very limited, and more pertinently, in view of the adjustment policies, stand-by funds and sectoral loans from the IMF and the World Bank are being held up.

Economic dislocation is bound to be more fraught and prolonged without external help. This is due not only to the difficulties of stabilizing the monetary environment but also to the need to create a favourable environment for foreign investment. There are two aspects to this. First, all potential foreign investors emphasize the country's extremely poor infrastructure as a serious constraint on future investment. Capital for the extensive infrastructural requirements to attract this investment will have to come from bilateral and multilateral sources. Second, at an 'investment forum' in 1991, jointly sponsored by the Vietnamese Government, UNDP and UNIDO, continuing concern was expressed by many of the attending potential foreign investors over sections of the Foreign Investment Law. These include the requirement that foreign businesses have to hire labour through government-controlled agencies at above market wages and continuing uncertainty over foreign exchange controls and banking and trading regulations (*Bangkok Post Weekly Review* 1991). The launch of two venture capital funds by securities houses based in Hong Kong in mid-1991 is seen as a boost to foreign investment. These funds will be geared to investment in joint ventures and in newly privatized state enterprises. But here, too, concern has been expressed over the ability of the fund managers to identify suitable projects in the short term (*Far Eastern Economic Review,* 6 June 1991).

Up to 1991 some 200 investment projects, with a total capital value of US$1.4 billion, had been approved. The major sources of this investment were Australia, France, Hong Kong and the United Kingdom (ADB 1991), the bulk of which was committed to the exploitation of natural resources and to trading. Investment in manufacturing and agro-processing industry has been limited although a number of new projects were agreed at the 1991 forum. During the first half of 1991 there was a sharp increase in foreign investment approvals–US$600 million, equal to the total for 1990. Moreover, the average size of projects has increased recently from US$1 million to more than US$10 million *(Far Eastern Economic Review,* 5 September 1991). There is growing interest among companies in ASEAN countries, especially in Thailand, Singapore and Malaysia. Taiwan has now become the largest foreign investor, followed by Australia, France, Hong Kong and Britain. A rapid growth in Japanese investment can be expected once the embargo is lifted, but until then Japan is said to act partly out of fear of retaliation by the United States. An aspect of foreign investment that must be of growing concern is that two-thirds of licences granted are for the south.

The embargo is slowly breaking down. Italy, France and Australia have aid programmes or agreements. An EC programme is being put together. The IMF, World Bank and ADB are reputed to have their programmes ready after lengthy and cordial consultations with the

Vietnamese Government. There should not be problems of the Government objecting to conditionalities. Privately the World Bank admits that Viet Nam has already met its conditionalities in the reform policies with which it is struggling. UNDP had its own analysis of the economy ready by December 1990 and is presumably preparing a package too.

When the embargo is lifted a large quantity of finance and aid will flow in. The issue of absorptive capacity will then become important. Counterpart resources (technicians, managers, translators and material) will be in relatively short supply. Since part of multilateral and bilateral aid will go in training overseas, the stock of skilled people may be depleted. The most likely danger will come from runaway foreign private investment buying up the scarce developed skills.

UNDP (1990) had made estimates of the amount of aid required for the short- to medium-term (five years) strategy it is proposing (Table 9.2, p. 175). While they have to be seen as very rough guess estimates, their overall proportions are of interest. It is helpful to set them against some major items of foreign earnings: past remittances from emigres of about US$200 million, rice exports of US$316 million and oil exports of US$200 million in 1989. Since then oil exports have more than doubled (ADB 1991). The component costs are made up of physical infrastructures, rehabilitation of equipment, input supply and training.

Included in this are some items which indicate the thrust of the UNDP-proposed strategy. Agricultural input supply (largely fertilizer) needs US$150 million a year for three years. Industrial rehabilitation should have a revolving fund of US$100 million. Transport maintenance requires US$100 million over two years. Surprisingly, income generation support does not single out the small-scale private subsector which is being relied on to generate most of the new employment. Instead US$50 million a year is deemed appropriate for a food-for-work programme (presumably infrastructure building) and US$30 million a year for labour redeployment and training (UNDP 1990).

The above figures are for needed disbursements. Because of lags, commitments should be larger. The UNDP report suggests that commitments ought to rise to US$1 billion a year in the second year. The likelihood of this occurring has to be viewed against the background of sharply increasing demands on international capital. And it assumes the embargo will be lifted.

CONCLUSION

The Vietnamese economy is at a watershed. The Government is fully aware of the obsolescence of the DRV model. For the last decade it has implemented successively bolder structural reforms and has already more than fulfilled the usual conditionalities of the IMF and World Bank. Compared with other countries with similar pre-existing massive price and allocative distortions Viet Nam has done well, and this with very little external assistance. But by the end of 1991 the stage will have been reached when legal and institutional reforms will have been enacted and short-term efficiency largely achieved. After that it is difficult to see how the momentum can be maintained without an injection of external assistance.

The efficacy of these reforms and the easing of constraints to facilitate further efficiency of resource use will depend on the mobilization of resources. The bulk of new resources will come from domestic sources. But to entice them forward and to put them to productive, as distinct from the recently-seen speculative, use will require an enhancement of the absorptive capacity of the 'real' economy. Certainly structural adjustment loans for such things as balance of payments support and soft long-term loans for infrastructural development are highly relevant of this. But technical assistance in the form of training personnel and advising on policy design has a crucial role to play in enhancing absorptive capacity. It should also prepare the state apparatus for its now crucial role as promoter of macroeconomic stability, as regulator of economic activity and as planner, albeit now within an indicative planning framework.

The harmonization of external and domestic resources, by sector, must be high on the agenda of the next few years. This is to be seen not least in the case of the social sector when former means of social funding are threatened by the emergence of market forces.

NOTE

1 The reason for this is that a conference held at the Australian National University, Canberra, in July/August 1990 concluded that there must be much doubt surrounding currently available data, mostly presented by World Bank-Asian Development Bank sources.

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10

NORTH KOREA IN PACIFIC ASIA

Aidan Foster-Carter

Perhaps unsurprisingly, North Korea has tended not to figure prominently (or indeed much at all) in the burgeoning Pacific Asia literature. Thus it is possible for a book–a good book–bearing the title *Achieving Industrialization in East Asia* (Hughes 1988) to contain not a single reference to the first country besides Japan which did not achieve industrialization in East Asia.

Several reasons, good and bad, can be cited for this neglect. Good reasons include North Korea's sheer lack of usable data (especially since the late 1960s) and research opportunities: it was this that led the Sainsbury-Gatsby team at the Institute for Development Studies (University of Sussex) eventually and reluctantly to exclude Pyongyang from their pioneering study of development states in East Asia (Wade and White 1985). Bad reasons include the Cold War and/or pro-capitalist ideological bias, of the same kind which (let it not be forgotten) for so long also tried to make a blank on the map out of Red China. Of course North Korea has connived in the construction of its own 'bamboo curtain'; but that should not deter scholars.

Unfortunately the motives of the few who do notice North Korea are not always above suspicion either. Aside from the inverted Cold War mentality of fellow travellers, a species now thankfully extinct (see Foster-Carter 1978; Ante 1972, 1975), North Korea has also attracted passing interest from those who want to prove a point about culture: often a rather sweeping point. Thus Herman Kahn's avowedly 'culturist' approach, noting how 'adept at industrialisation' are the 'neo-Confucian cultures'–here defined as Japan, the four tigers, and the 'ethnic Chinese minorities in Malaysia and Thailand'–goes on to say that 'Mainland China, and perhaps Vietnam or North Korea will probably [sic] soon join this list, although the issue is still moot' (Kahn 1979:118). Later in this paper (p. 124) Kahn has gained the confidence to assert–in a long list including all the aforementioned, plus now ethnic Chinese in Indonesia and the Philippines as well–that 'The performance of…both North and South Korea… discloses extraordinary talent (at least in the last twenty-five years) for economic development'. No data are cited in support, nor are the methodological problems raised by the face in brackets addressed (see Foster-Carter 1988).

Slightly more attentive are Hofheinz and Calder (1982:63) who not only include North Korea in their 'Eastasia' but venture the judgement that despite certain problems 'the North Korean economy has performed better than that of any other state outside Eastasia, except possibly Malaysia, whose dynamic overseas Chinese businessmen are also of "neo-Confucian" origin', perhaps a rather benign view for the early 1980s.

STATE, ECONOMY AND DEVELOPMENT

North Korea's Economy: Periodization

North Korea's forty-five years of economic history fall into two fairly distinct halves. The first was the success story, and the figures are there to prove it. Not only did the country recover from the shock of partition and the catastrophe of war, but it forged ahead with basic industrialization at remarkable speed and with tangible results. This was the period of Joan Robinson's verdict that 'All economic miracles of the postwar world are put in the shade by these achievements' (Robinson 1965:208), and of the normally sceptical René Dumont's judgement that 'In agriculture and probably industry too, North Korea leads the socialist bloc' (Dumont 1969:137).

Even the most careful and sober independent western study concluded that 'North Korea has made a giant stride since 1945 in her drive towards industrialisation and economic viability' (Chung 1974:151). To give just two examples, the share of industry in national income rose from 16.8 per cent in 1946 to 64.2 per cent in 1965 (Chung 1974:146–7); while Lee (1971), rcalculating 'overstated' North Korea figures, nonetheless arrives at an average annual rate of industrial growth of 15.6 per cent (as against a claimed 17.4 per cent) between 1949 and 1963.

From the late 1960s, however, various problems set in. The seven year plan which had begun in 1961 was extended to 1970, ostensibly for reasons of defence. (1968 was the year of the confrontation with the United States over the seizure of the *Pueblo*.) The government stopped publishing systematic, and eventually almost any, economic statistics; but it is nonetheless clear that growth rates have been in decline for two decades (see Chung 1983).

With the advantages of hindsight and even a slight acquaintance with comparative communism, it is not hard to see what went wrong despite the absence of hard data. Chung (1983) gives a useful checklist: numerous bottlenecks (arable land, labour, energy, transport, extractive industry); shortage of foreign currency; declining aid; increasing defence expenditure; declining state revenues; increasing capital-output ratio. Two are particularly noteworthy; the declining efficiency of central planning in a more complex economy, and the shift from extensive to intensive production. We know that North Korean economists were aware of the latter problem, because they felt the wrath of Kim Il Sung. The following quote is representative of the great leader's style and level of argument:

> The 'theory' that large-scale economy cannot develop rapidly is but a sophistry brought forward by some people to justify the fact that their technical progress is slow and their economy stagnant because they, talking about 'liberalisation' and 'democratic development', did not educate their working people and, as a result, the latter are ideologically so soft as to fiddle about and loaf on the job.
>
> (Kim 1971(1969):165)

State and Economic Development

The role of the state in the North Korean economy has been and remains pervasive. In a process and sequence comparable to and broadly contemporaneous with Eastern Europe, most industry was nationalized as early as 1946; while the same year saw land given to its tillers, only to be co-operativized a decade later by 1958. Both these processes may have been less contentious than elsewhere, since much of the industry nationalized had been Japanese- rather than Korean-owned. Likewise, collectivization was relatively peaceful, following as it did the devastating intermission of the Korean War. The generally hostile authors of the largest Western study of North Korea support these judgements: 'Nationalization was this in its essence an act of nationalism as much as socialism…almost every rural household was so heavily dependent upon the state for survival…. Thus, the political repercussions of collectivization itself were minimal' (Scalapino and Lee 1972:1196, 1067).

The initial dynamism but subsequent stasis of the North Korean economy have already been mentioned. Further description will be eschewed here, for a mix of reasons. For one thing, there exist a number of surveys already (e.g. Chung 1974, 1983; Kim 1979; Bunge 1981; Halliday 1987; Foster-Carter 1988).

In addition, paradoxically we know both too little and too much for this to be a worthwhile task. On the one hand, there are still huge gaps in the North Korean data. But on the other hand, Eastern European experience provides ample comparative and deductive knowledge of the way such systems work–or fail to work. In a nutshell, North Korea is Rumania with knobs on; that at least will be my assumption, and I shall try to provide at least indirect supporting evidence.

What is interesting to me is what the North Korean experience proves. I would argue that it provides both positive and negative evidence (successively) in support of Gordon White's (1984) account of developmental states, and in particular his view that 'pervasive methods have been more characteristic of earlier phases of the industrialisation process' and that 'where a state's role may be more positive in early industrialisation, it may become less so in later stages' (White 1984:101, 104).

As already indicated, North Korea's economic development until the late 1960s was impressive. Without going into detail here, I take this as broadly confirming propositions suggested by more experience: first, the efficacy (perhaps even, despite current Western ideological nostrums, the necessity) of far-reaching state intervention in the early stages of industrialization; and second, more contentiously, the specific brute economic strengths of the Stalinist variant of this pattern. Also, North Korea at this time was legitimated by a great surge of specifically Korean pent-up radicalism; as Cumings (1981) has argued, notwithstanding the presence of the Red Army there really was a *Korean* revolution. Even the devastation of the Korean War may have dialectically fuelled North Korea's spirit of defiance, as well as (more narrowly) necessitating a *de facto* command economy even while agriculture and small business were nominally still in private hands.

So what changed? Nothing changed, and that is North Korea's problem. Actually, that is too pat. North Korea did change; but for the worse, not the better. The unnamed economies criticized by Kim Il Sung (as quoted above) were, of course, correct. Having successfully accomplished the early industrializing (and post-war reconstruction) phase of rapid extensive growth, North Korea did indeed need by the late 1960s to shift to a more intensive and less frenetic pattern. Predictably, growth rates over the past twenty years have declined, as even some (rare) official figures indicated (Economist Intelligence Unit 1985, Part 1:2).

The Swallowing: State and Civil Society

Not only did North Korea not reform, but if anything it intensified its old ways. The cult of Kim grew and grew, and able cadres (like those economists) who in the past had at least a little space to air their views will have been either purged or bludgeoned into 'loyalty' and silence. This is much more than just a point about economic management, or even creeping political totalitarianism. As Kim Il Sung squeezed his country ever more tightly to his 'warm bosom', so he gradually suffocated it.

One has only to contrast Chris Marker's (1959) pictures of North Koreans in the late 1950s with any current issue of such glossy magazines as *Democratic People's Republic of Korea.* Marker's black and white images from the post-war years show people who are proud, free, beautiful, individual; poor but uncowed by bombed dykes and napalm, you can see how they could have stood up to the Americans/ United Nations, and were now rebuilding. By contrast, North Korea's current self-presentation is uniformly of actors as robots, in heroic poses with forced smiles against kitsch backgrounds. The colours are glowing, but nothing seems real; this is a performance. North Korea itself is, above all else, a performance.

Put more formally, in North Korea over the past two decades the state has swallowed civil society, probably more completely than anywhere else on earth. The now familiar East European critique of how such processes gradually self-destruct, with the sapping of a country's economic, political, social and even more dynamism, must surely apply with redoubled force to North Korea. (By contrast, I would hazard that in South Korea, while the state would oftentimes have liked to swallow society–especially in the 1970s–it could never succeed, if only because capitalist and externally-oriented development ensured the creation and growth of ever new and stronger social strata and groups, while lip-service to the 'free world' made it impossible to suppress these.)

This is not the place to essay a sociological interpretation of North Korea. Actually there have been few such attempts. A notable exception is Cumings (1982–83), who characterizes Kimilsungism as a variant of 'corporatism'. While this term—along with the often-maligned 'totalitarianism'—is useful and indeed indispensable. I find it also insufficient.

I have put forward elsewhere (Foster-Carter 1990) both a general and a specific interpretation of Kimilsungism as a societal project. Noting the often astonishingly close resemblances between North Korean rhetoric and the 'traditional' side of the classical nineteenth century dichotomies of social change, I suggest that Kim Il Sung has sought *modernization without modernity:* yes to industry, urbanism and technological progress, but no to pluralism, civil society and differentiation (at least in theory).

The specifically Korean root lies in North Korea's attitude to the Taewongun, the nineteenth century regent who was the last to try to maintain Korea's 'hermit kingdom' stance towards the outside world. Current Pyongyang writings commend him for keeping foreigners out, but condemn him for failing to modernize society behind ramparts thus created. Of course, the project is intrinsically impossible: there can be no closed modernity, and indeed no modernity without what North Korean diatribes against capitalism (increasingly frequent, these days) criticize as 'mess'. Even so, this attempt to square the circle was not unreasonable, in a society attempting modernization in North Korea's circumstances.

Economic Reforms in North Korea

While any real perestroika is steadfastly avoided in Pyongyang, the pressing nature of economic problems nonetheless ensures that there has been some tinkering. North Korea in a sense is trying to change without changing. Early in 1985, a tantalizing Xinhua report announced what sounded like fairly major changes: more autonomy to managers, profit retention, work group responsibility for schedules and bonuses, an independent accounting system, and a degree of private handicraft production (more detail and references in Foster-Carter 1988). North Korea itself has not confirmed any of this except the accounting system, details of which are unclear. Overall, it is hard to square such reforms with the ample evidence of continued top-down planning and political intervention.

What is confirmed, however, is a modest shift in the direction of East German style *Kombinats* (Foster-Carter 1986). This permits a degree of 'horizontal' co-operation between organically connected enterprises (e.g. where A produces B's inputs), yet still within the context of a highly centralized overall planning system. These combines have recently been relieved of party supervision at the country and municipal level, but they still come under the regional KWP (Korean Workers Party) apparatus; while vertically integrated complexes will have a central party committee guiding operations nationwide (Economist Intelligence Unit 1989 Part 4:35). While this may remove one layer of bureaucracy, it is revealing of the party's firm grip overall. There has also been debate about the extent to which combine managers should make their own decisions, as opposed to the economic ministries in Pyongyang; but the outcome is not known.

Another intriguing debate concerns light industry, much of which at least since 1973 has been delegated to the provinces (see section below on regional inequalities). An article in *Kulloja* (the KWP theoretical monthly) in December 1984 called in effect for centralized national production of major light industrial products, in order to reap economies of scale, raise skill levels and improve quality while avoiding wasteful duplication. As ever, we don't know if or how far this was done. While Pyongyang's 1989 budget increased investment in light industry by 13 per cent, the dominant note in this field has been the very different and rather desperate one of 'sideline production': i.e. encouraging an already hard-pressed labour force (particularly women) to conjure up 'reserves' from somewhere and make baskets and the like in their spare time (if any; remuneration is also unclear). Menacingly, *Rodong Sinmun* on 2 August 1986 pronounced that individuals' performance in such commodity production 'may be regarded as a scale to measure degree of loyalty to the party'.

As regards external economic relations, North Korea introduced a joint venture law (closely modelled on China's) in 1984. But nobody came. Despite rumours of West German and Hong Kong investment in garments and tyres, the only confirmed joint ventures are several dozen with the much-squeezed patriotic capitalists of Chongryun, the pro-North organization of Koreans in Japan. Significantly, most of these are in light industry.

The Collapse of Planning

In the field of planning, North Korea presents a profound paradox. On the one hand, it is ostensibly one of the world's most rigidly planned economies, and as such shows every sign of suffering all the familiar malaises. And yet, at the same time, it also seems remarkably uplanned and even ramshackle. Several examples may be cited.

First is the problem of overruns. No plan has been fulfilled on time for thirty years. What should have been a seven year plan in 1961–7 was extended to 1970, ostensibly because of unforeseen defence burdens. The next six-year plan (1971–6) was followed by a 'year of adjustment' in 1977; while the subsequent seven year plan (1977–84), despite routine claims of fulfilment, was succeeded by two years for which no plan of any kind was announced. The current seven-year plan (1987–93) incorporates targets originally touted as 'ten long range goals for the 1980s'; but ominously little is heard of these nowadays, and South Korean sources claim that real output in key sectors in 1988 was below even the claimed achievements of 1984 (Economist Intelligence Unit 1989 Part 4:33–5).

Then there is the budget. Each April, finance minister Yun Gi Jong reviews the previous year and announces the current year's outlays. In addition to the dearth and/or uselessness of the few figures given (either because definitions are unclear, or because the claimed percentage increases—always increase!—are on an unknown base-line), there is the very curious fact that—for 1987, at least—the intended figures announced at the time bore almost no relation to the actual outlays reported in retrospect in 1988 (Economist Intelligence Unit 1989 Part 2:35). The strong impression is more of crisis management than steady planning; with resources being reallocated at short notice, either to meet unforeseen, but predictable problems, or in response to political pressures (see the section on Kim Il Sung's personal contribution to this process). The result is guerrilla methods: 'storming' (in fact failing to storm) this or that 'height' and '200-day speed battles', rather than careful and consistent rational planning.

Then again, there are musical chairs. Since the mid-1980s North Korea has regularly reshuffled economic ministries and ministers, sometimes at dizzying speed. Thus in November 1985, thirteen separate economic ministries were streamlined into six 'commissions'—only for most to be unmerged again subsequently. As for personnel, the top planning job changed hands six times between 1986 and 1988, with one minister (Hong Song Nam) losing it in

February 1988 only to reaquire it four months later. This cannot be helpful.

Overall it is not exaggerated to claim that planning has more or less collapsed in North Korea. Despite the best efforts of rationally-minded bureaucrats and managers, and the apparent existence (unpublished, of course) of yearly, monthly, and even ten-day targets for enterprises, in practice rational planning is hamstrung from two directions: the problems of planning itself; and the problems of interfering in planning. The former, system-faults, are the familiar litany of Kornai (1980) effects (such as bottlenecks, shortages, hoarding, no inputs, power cuts and no transport). The latter, on the other hand, reflects the predominance in North Korea of both power relations and a concomitant fiercely voluntaristic discourse which in effect allow the leadership to sabotage rational planning by interfering at will. Quite aside from the direct damage this does, the discourse has two further baleful effects. Its relentless *gemeinschaftlichkeit* renders it impossible to raise *gesellschaft* questions; while the associated *fuhrerprinzip* explicitly glosses any questioning as disloyalty. As a result, the North Korean system has a terrible infallibility problem: there is no language for acknowledging system malfunctions, and besides to do so jeopardizes one's future.

So-called planning, therefore, currently boils down to demanding that everyone produces more of everything, and then hoping for the best. Given that both labour and machinery are all but exhausted, this in Marxist terms means increasing the rate of absolute as opposed to relative surplus value extraction: a procedure as politically reactionary as it is unhelpful economically.

Kim Il Sung's Contribution

Despite the dearth of hard data on North Korea, useful light is provided from an unexpected source. There is just one man in North Korea who can speak out safely, and to a surprising extent he does so. Kim Il Sung's collected *Works* (which have so far reached volume 35 and 1980) contain remarkably critical and forthright comments. While his proposed remedies are of course voluntaristic (people must just work harder and be more loyal), some of his diagoses are both intentionally and unintentionally revealing.

First of all, the 'people's paradise' does after all have problems. In 1980 alone, scarcely a sector escaped the Kim Il Sung's criticism. A few examples must suffice: 'The problem of rail transport must be resolved once and for all' (22); 'At the moment we are unable to import sufficient oil because of the strain of foreign currency in our country' (21). Two major steel works may 'have to suspend operation because recently imports of coke have not been arriving regularly' (17). Meanwhile ministers are too fond of 'idling away their time, just reading…in their offices' (16), or 'travelling about aimlessly by car' (19). Workers waiting for logs have to wait 'several months, even for a year': hence they neglect their studies and end up fishing, 'drinking and leading a dissipated life' (25).

All that was from a single speech, in January 1980. In April, Kim complained that light industry 'is not producing sufficient quality consumer goods for the working people' (77), and 'the standard of living of the people is not improving' (79). As for food, although 'the problem of the diet of the citizens of Pyongyang has been more or less resolved (77–8), still 'little sugar, cooking oil and meat…are currently available' (86): and (a month later) 'the quality of foodstuffs is not high' (126). As for other apsects of the quality of life: 'Many factories in the Hamhung area are emitting noxious fumes…I have long emphasized the need to control pollution in the Hamhung area' (172, 171). Or again, in successive sentences: 'One important aspect …is to prevent pollution completely. Our country is free from pollution' (195).

As well as admitting problems, unintentional light is shed on how these arise. In the same speech at Hamhung, Kim criticizes officials for 'working from expediency, stopping a gap in one sector by taking away something from another' (180). Yet he himself, just five pages earlier, insists that a key enterprise (the February 8 Vinalon Complex) 'must, without fail, be supplied with…things it needs…*even if it means obtaining equipment already installed in other factories* (175, emphasis added). Quite aside from the hypocrasy and self-contradiction, an economy where the head of state openly advocated that one enterprise should plunder another is going to have problems.

Elsewhere, Kim accuses agricultural officials of submitting 'doctored reports': 'I find it hard to believe that 67 per cent of rice transplanting has been merchanised' (241, 240). The temptation to 'make false reports' (240) must, nonetheless, be great, if only as an attempt—unsuccessful, in this instance—to keep the great leader off one's back. Economic cadres at all levels, even ministers, are accused of 'not obeying orders' (15): and the second plenary of the sixth—and so far the latest—Congress of the Korean Workers Party Central Committee in December 1980 was told that 'You must show absolute and unconditional loyalty in implementing the Party's policies. An implacable struggle should be waged against the practice of arguing about Party policy…' (454). So much for feedback. By contrast, a reported strength of South Korea's bureaucracy is the wide discretion granted to relatively junior officials with detailed on-the-spot knowledge, who can and do send back directives from above if they know them to be unworkable (Mitchell 1984).

Space forbids further examples, but other economic burdens attributable to Kim Il Sung must include Pyongyang and its 'grand monumental edifices' (including an Arc de Triomphe bigger than the original). He also has obsessions which range from trying to produce steel with domestic coal rather than imported coke (20), to replacing imported sugar with a Korean plant, *palwolpul*–even though 'at first it tastes a little strange' (88, cf. 130). Laudable though import-substitution may be in principle, the suspicion lingers that such things will be done whether or not they are technically or economically feasible–because the leader has decreed it.

SPATIAL ASPECTS

National Division

The most fundamental spatial issue about North (or South) Korea can be simply stated: it is one half of a divided country. This fact has had immense economic and political consequences.

Even if Korea in 1945 had won the independence which Koreans had every right to expect, any new government would have faced the tasks of converting the existing productive but Japan-oriented economy into one more responsive to local needs. As it was, this task was overlaid and exacerbated by the wholly arbitrary division of the country at the 38th Parallel: 'a geodetic line which cuts across Korea indiscriminately' (McCune, S. n.d. [1949]:83); 'not only without any topographic basis, but also without any foundation in previous political and economic fact as well, the division amounted in reality to the vivisection of Korea. The line cut across provinces, counties, even towns' (McCune, G. 1950:54).

Economically, in broad outline North Korea had most of the country's heavy industry (86 per cent) and minerals, while the South contained 74 per cent of manufacturing. Contrary to what is often said, cultivated acreages were not that different (indeed the North had slightly more): but South Korea had three times as much irrigated riceland McCune, G. 1950:56, 53). At a lower but no less crucial level of aggregation, more detailed economic complementarities were also sundered. Road and rail links were severed, and in May 1948 North Korea cut off electricity supplies to the South.

This pattern continued after the devastating episode of the 1950–3 Korean War, in which North Korea was literally bombed until there were no more targets and was also briefly the only communist country ever to be physically occupied by American forces (unless one counts Grenada). As a line of division, the post-war Demilitarized Zone (DMZ)–representing the positions at the armistice of 1953; there is still no peace treaty–may have been marginally less unnatural than the 38th Parallel, but has been even more absolute. No ordinary Korean has legally crossed it in over thirty-five years, the only exceptions being occasional inter-Korean negotiators in the early 1970s and late 1980s. There would also be no inter-Korean trade until late 1988, and North Korea still denies any. South Korea however imported c. US$20 million worth of Northern products (mostly raw materials) in 1989, and this trade is currently increasing.

The political consequences of territorial division are also considerable. Like the Republic of Korea in the south, the Democratic People's Republic of Korea in the north has since its foundation in 1948 claimed to be the sole legitimate government on the peninsula. Both states still maintain government departments nationally for administering the 'temporarily' occupied other half of the country. (Indeed, for several years North Korea nominally continued to regard Seoul as its capital). Northern refugees and their descendants, now numbered in millions, have constituted an important bloc of right-wing opinion in South Korean politics. (The much fewer Southern communists had little chance to do likewise in the North; Kim Il Sung purged them shortly after the Korean War.)

Of the slightly more than sixty million inhabitants of Korea today (some forty-two million in the South, around twenty million in the North), at least ten million–maybe more–have relatives on the other side with whom they have been allowed no contact since 1953. years. Reunification is nonetheless a constant propaganda theme for both Korean governments; but their positions are poles apart, and there is little willingness on either side to compromise.

Foreign Trade and Aid

Korea's simultaneous independence and division meant a drastic reorientation in North Korea's trading patterns. Whereas in colonial times Korean trade was overwhelmingly with Japan, North Korea's economic ties were (at least initially) exclusively with communist countries, principally the USSR. Down the years, and despite the vicissitudes of Pyongyang-Moscow relations (as North Korea leaned now this way and now that in the Sino-Soviet dispute), the USSR's role as major trading partner and much the biggest supplier of aid has been pretty much constant. Only in 1974, when North Korea went on a buying spree in the West (for which it never paid), did this pattern briefly change. Soviet-North Korean trade more than tripled in the five years up to 1988, when it totalled US$2.63 billion, said to be 45 per cent of North Korea's total. Interestingly, this increase comprises a doubling of Pyongyang's exports but a massive fivefold surge in imports, thus building up a trade imbalance rapidly approaching US$1 billion. Since this ran counter to the trend in Soviet policy elsewhere, one might surmise that this was an attempt to increase North Korean dependence.

Also constant, at a much lower level, had been the role of Japan as North Korea's major capitalist trading partner. The total for 1986 dipped under US$400 million; it has usually been higher, despite unpaid debts, no diplomatic relations, and (perversely) lack of direct transport routes, not to mention arguments over the perhaps 200,000 of the Koreans in Japan whose allegiance is to Pyongyang. (For a study of the overall Tokyo-Pyongyang relationship, see Shin 1981.)

In character (as opposed to direction), North Korea's trading pattern has partially moved away from its colonial past; for example, it now largely exports metals rather than minerals, as well as a range of other goods. Two further comments are in order. First, North Korea's overall trade volume has always been rather low: less than one-twentieth of South Korea's currently. This in turn would seem to be related to North Korea's *juche* philosophy, with its emphasis on self-reliance. Yet, as Van Ree has cogently observed, *juche* is both less unoriginal and 'a paradoxical concept which leads…to dependence rather than independence: the ambition to build up a comprehensively developed economy leads to financial dependence of foreign countries' (Van Ree 1989:50). If Van Ree is correct then North Korea's long-term dependence on the USSR is not surprising. (See also Foster-Carter 1984.)

Finally, an unknown but probably small proportion of North Korea's trade with its two land neighbours is border trade between adjacent provinces or even enterprises. Even with China's major Korean community in Yanbian, the 1988 total was only US$2.4 million. That with the Soviet Far East has been more substantial, although Soviet sources have complained publicly about North Korean bureaucracy.

Communications: International

A striking fact about North Korea is the sheer paucity of its international communications. Pyongyang is linked by air with just five cities: Beijing, Moscow, Khabarovsk, East Berlin, and Sofia. The total number of weekly flights in and out is sixteen: eight in each direction. There are also three trains per week each way connecting Pyongyang to Moscow (a week's journey) and four to Beijing.

With Japan, the only link is a boat between Wonsan and Niigata, for the sole use of members of Chongryun (the pro-North organization of Koreans in Japan). A new development, however, is an air charter service between Pyongyang and Hong Kong, which is scheduled to run fortnightly from April 1990. North Korea is also reportedly trying to open an air charter link between Pyongyang and Nagoya via Shenyang in China.

Hong Kong was also (in 1989) the first country to inaugurate an international direct dialling telephone link to Pyongyang. In general, despite the construction of a new communications centre in connection with the July 1989 World Festival of Youth and Students (WFYS)—for which Pyongyang received an unprecedented 15–20,000 foreign visitors—international telecommunications both in and out are patchy. Only in the 1980s did North Korea begin to publish selected telephone and telex numbers for hotels and enterprises, but not for ministries, which are also not shown on any map. Postal services are slow and unreliable, faxes as yet unknown.

The mass media are similarly restricted. Although North Korea itself broadcasts to the world on a scale hardly less than the BBC World Service, it not only jams others' broadcasts but restricts its citizens to AM radios with fixed dials. The elite, however, may tune in to FM and twiddle the knobs. Even tourists are forbidden to bring in 'wireless radio and its accessories' (Ryohaengsa, n.d. [1989]:24; the only other banned items are poison and narcotics, explosives, and weapons and ammunition.

Communications: Internal

North Korea's internal communications suffer from both the natural and man-made obstacles (this is not sexism: the man in question is

Kim Il Sung). The first refers to the largely mountainous terrain, while the latter denotes the striking restrictions on personal mobility.

With broad mountainous spines running both north-south down the centre of the peninsula and southwest-northwest across the northern border with China, most North Koreans live either on the Pyongyang plain in the West or strung out along the east coast. The former is also the main producer of grains as well as containing the nation's capital, while the latter includes such major industrial sites as Hamheung, Chongjin, Kimchaek, and Wonsan.

North Korea's relatively extensive railway network (a claimed 8,533 kilometres, with new lines still being built) reflects the above distributions, consisting chiefly of lines down the west and east coasts, with spurs and a few loops (the latter mostly in the west). Until recently there was only one west-east link, between Pyongyang and Wonsan; but there is now another further south, while in the far north a major project to create a third link across difficult territory is nearing completion. Over half the track, carrying 90 per cent of all freight, is electrified.

On the other hand, there is little double tracking, and low speeds suggest a system largely unmodernized since the 1950s, if not earlier. Road transport is worse. Although the network is claimed to total 75,500 kilometres, the first expressway (from Pyongyang to Wonsan) was built only in 1978, and by 1986 the surface had already deteriorated considerably. Perhaps fortunately, it is not much used, since traffic is astonishingly scarce: maybe one vehicle per minute in April 1986, with no inter-city buses and few lorries. The contrast with South Korea's crowded highways (express buses leave Seoul for Pusan every three minutes!) could hardly be more extreme. There is no individual car ownership in North Korea.

North Korea would like to shift more freight: transport problems and bottlenecks have been a constant complaint for a decade and more. People, on the other hand, are supposed to stay put. As befits a society apparently organized in quasi-estates (Minnesota Lawyers International Committee 1988:34ff), casual individual travel is forbidden; you have to be on business, or get special permission. Living in Pyongyang is a privilege reserved for Party members, while conversely more remote and unattractive areas are largely peopled by those whom the government mistrusts. It is hard not to connect this individual mobility with the evident broader stagnancy of North Korean society.

Regional Inequalities

One paradox of the otherwise highly centralized North Korean economy is that, while heavy industry is run by national ministries, much else–light industry, agriculture, even social services–seems to be left to each province to fend for itself as best it can. Not only are they supposed to balance their books without subsidy, but furthermore to hand over a tidy surplus to the state budget.

The consequences of this are predictably twofold: regional inequalities (reflecting unequal endowments and/or political clout); and sectoral imbalances as light industry (and hence the provinces) struggle to make ends meet. Rare quantitative data indicating as much can be found in a Soviet source (Trigubenko 1985:127), which compares trends in provincial revenue and expenditure between 1980 and 1984. Overall, both sides of the ledger declined in the early 1980s in every province except one (Ryanggang). This did not stop central government increasing its exactions by 20 per cent over the same period. By region, while the Pyongan provinces look particularly squeezed, both Pyongyang itself and the Hamyong provinces seem to have held the line in terms of cuts.

Things got worse in the mid-1980s, with sharp falls in both provincial aggregate expenditure and revenue in 1985 and 1986 (North Korea's two 'planless' years). Although a recovery on both sides of the ledger in 1987 enabled the state to cream off its largest ever surplus (US$1.8 million, i.e. some 3 per cent of the state budget), total provincial spending nationwide was still less in 1987 than it had been in 1980. The 1988 budget represented a concession to the provinces: their total expenditure was slated to rise three times faster than income, i.e. they could spend more of what they earned (Economist Intelligence Unit 1989 Part 2:33–4).

To reiterate, these figures and other evidence indicate severe sectoral and regional inequalities. Both seem set to continue. Significantly, the keynote speeches in the budget debate in 1988 featured the mayor of Pyongyang insisting that the capital was paying its own way, while 1989 saw light industry minister Kim Bok Sin emphasizing the need to enhance this area–which for a change seemed to be allocated more central investment for 1989.

Geopolitics in North East Asia

In the past, North Korea's eschewal of 'Pacific-Rimmery' was not so irrational as the more dewy-eyed proponents of trans-oceanic intercourse are wont to assume. Pyongyang's political and economic ties with its two contiguous neighbours and major sponsors made at least as much sense as Seoul's alliance with a distant USA and a near but suspect Japan. In any case, in the beginning there was little choice.

But the world has moved on, and North Korea has not. Trying to diversify trading partners in the early 1970s was sensible: but failing to pay Western creditors (especially Japan) was extremely unwise. Otherwise, North Korea could now be enjoying the kind of thriving economic relationship with Japan which South Korea carefully built in the 1980s with China. Here, pride and prejudice militate against rational economic calculation. As a result, North Korea now has no consistent access to desperately needed new technologies. With Japan and indeed South Korea on the doorstep, buying your computers from Bulgaria is perverse indeed.

The dizzy economic and diplomatic successes of South Korea's *nordpolitik* threaten to undermine North Korea diplomatically, as well as isolating it economically. Indeed, only Tiananmen Square saved North Korea from being wholly encircled by capitalists and revisionists; and even so, China's US$3 billion trade with South Korea is six times that with the North.

The strategic issues are the most complex, and at the moment there are too many imponderables: the pace of superpower *détente* in the Pacific; possible Japanese rearmament; United States cost-cutting troop reductions in South Korea; China's likely political evolution (and for that matter the USSR's); even South Korea's internal politics. Despite straws in the wind, such as little noticed channels of dialogue with the USA, the odds must be that North Korea under Kim Il Sung will not be able to change its defiant and ultimately self-defeating hostility towards its old enemies in Washington, Tokyo, and above all Seoul.

SCENARIOS

It is surprising how many Western analyses do North Korea too much honour; accepting it at face value, regarding it as stable, and even predicting a smooth eventual transfer of power from Kim Il Sung to Kim Jong Li.

Despite Kim Il Sung's almost forty-five years of power (the current world record), I am convinced Kimilsungism is doomed. Certainly it will not survive his eventual death, which will unleash a power struggle between Kim Jong Li and his many enemies, who could be anyone from old communists or reformers to thwarted relatives (his stepmother and uncle, for a start). The outcome will be military rule, probably *à la* Jaruzelski, in the sense that, even if the initial aim were to maintain or restore order, ultimately I cannot imagine such a regime possessing either the incentive or the means to sustain or reconstruct the *status quo ante*. Rather, both internal and external pressures to reform and open up will be irresistible.

Kim Il Sung was seventy-nine in April 1991, and seems in good health. Left to nature alone, he and the DPRK would die some time in the 1990s. But might anyone or anything hasten the process? Externally, North Korea is increasingly isolated, particularly following events in Eastern Europe and the USSR, and North Korea has no serious alternative to the former USSR as a source of financial aid or technology or armaments. China, although relations are warmer since Tiananmen Square, is in no position to fill the gap.

Internally, meanwhile, North Korea's unreformed and unmodernized economy sinks ever deeper into crisis. It seems impossible that current plan targets (themselves rolled over from 1989) can be met by 1993, when the current seven-year plan ends. Despite an expressed wish to increase foreign trade, there is neither a hint of perestroika (still less glasnost), nor any source of cash for desperately needed capital investment.

The key question here is: in what circumstances might endemic and deepening economical crisis translate into political crisis? Although North Korea has certainly kept the lid on to a remarkable degree so far, I do not believe one can rule out a possible explosion. Two conceivable scenarios are:

1 A palace coup: a putsch by would-be reformers and/or senior military, well aware of the depth of North Korea's crisis and international pariah status. (In November 1986 there was a mysterious alleged attempt to assassinate Kim Il Sung). So tight is security at the topmost levels, however, that it would be very hard for such a conspiracy to be organized. While little is known about North *Korea's gulag,* the last premier Li Gun Mo is thought by some to be in jail for favouring reform.
2 *Timisoara:* i.e. a local spontaneous popular protest escalating into something bigger. This is perhaps more plausible, given that economic conditions are already biting in the form of stagnant or possibly declining living standards, while exhortations to struggle and work harder only increase. Despite great reserves of endurance, somebody somewhere will surely snap in the end:

perhaps a food riot, or a protest against 'voluntary' labour (both of which are rumoured to have occurred already). If one such contingent event were to occur and escalate, and especially if (as is not impossible) sections of the KPA (Korean Peoples Army) refused to use weapons against protestors, then an irreversible process would be under way.

Even if neither of these scenarios unfolds, Kim Il Sung will die eventually. As already indicated, it seems clear that–whoever his successors are–the only option will be opening up and reform. (The alternative, to effect an Albanian-style continuity, would require a unity at the top after Kim which North Korea does not appear to possess.

This in turn has a further consequence. In exactly the same way and for the same reasons in Germany, the momentum of reform, once begun, is bound to accelerate to the point where pressures for reunification become irresistible. And, as in Germany, reunification in practice will not be the coming together of two putatively equal entities; it will be the collapse of the communist state and its absorption by the capitalist one.

Put another way, in North Korea the key and as yet imponderable issue is the when and how of the *ancien régime's* collapse. Once this begins then the teleology is inescapable. As in Germany, there may be I would anticipate desperate but feeble attempts to breathe new life into the shell of the communist party and state being rapidly swept aside by a mighty tide of popular clamour for reunification. That will surely be the one clear-cut and overwhelming political demand, from a populace who must emerge (as in Romania) otherwise depoliticized by the relentless formalistic politicization of everything which was Kimilsungism. Although the state may have swallowed civil society, it will somehow have survived. Christianity in particular, strong around Pyongyang in the years before 1945, will burst forth once again, and probably make considerable gains, as in the South. At all events, ordinary North Koreans will turn out to have been prudent certainly, cowed probably, but, despite the convincing impersonations which they give currently (although the mask may now be beginning to slip a little), never brainwashed.

Although Korean momentum towards reunification will rapidly become unstoppable, as in Germany, each side has allies who may be uneasy. While the USSR and China, Japan and the USA would all welcome what until recently could be called 'Germanization' (exchanges, reduction of tension, at least *de facto* mutual recognition), the logic of events in Germany itself now suggests that for Korea this would be only a brief transitional stage. Yet although the military-strategic situation around Korea is much messier and less symmetrical than Germany, a likely outcome might be four-power guaranteed neutrality for a reunified Korea and the withdrawal of foreign troops (of whom there are none in North Korea).

Economically, in a process which may even begin before North Korea 'falls', reunification (as in Germany, once again) will take the form of an advance by the major South Korea *chaebol* (large companies) across the DMZ (Demilitarized Zone): investing massively in updating North Korea's antiquated infrastructure and capital stock, while reaping the benefits of cheap disciplined labour and usefully adjacent raw material sources. Hyundai's founder visited North Korea in early 1989; a trickle of trade has begun (US$20 million in 1989), and is said to be rising rapidly, although Pyongyang perversely still denies its existence; and several *chaebol* are rumoured to have quietly purchased chunks of North Korea's long unpaid foreign debt.

Such, in my view, is the only manner in which North Korea will now rejoin the regional, Pacific and global economies: by gradual integration into South Korea after Kim Il Sung. Other options are now only might-have-beens, e.g. 'Germanization' in the old sense or the kind of opening to Japan which seemed possible in the mid-1980s. But those moments have passed. To repeat: while the when and how remain as yet unpredictable, the ultimate outcome is not.

Though not given to gambling, I would place a small wager on the year 2000 ushering in the United Republic of Korea. It could be much sooner.

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11

CONCLUSION: TOWARDS THE PACIFIC CENTURY?

Chris Dixon and David Drakakis-Smith

The intensification of economic nationalism in Europe and the USA will have an extremely complex impact on Pacific Asia trade. In particular considerable uncertainty surrounds the impact of the post-1992 single European market. Davenport and Page (1991) have estimated that while Singapore will experience a 4 per cent fall in export earnings and Indonesia a 4 per cent rise, the impact on most of Pacific Asia will be slight. However, it is estimated that while there will be gains for ASEAN exporters of minerals, tropical products and agricultural raw materials, in contrast there will be a loss of trade in such areas as clothing, electronics, vehicles and footwear, i.e. in the industries where EC manufacturing is lagging. Overall, while the impact will be differential it will be far less serious than the loss of investment if the EC investment boom continues.

Increased protection of the American market and the formation of a North American Trade Agreement including the USA, Canada and Mexico is likely to be accompanied by a general reduction of the American presence in Pacific Asia. The easing of global tension, particularly the preoccupation with the Soviet Union, has substantially reduced the significance of the region to American strategy. The closure of the bases in the Philippines will further reduce the role of the USA in regional security.

There are clear signs that Japan is ready to replace the role of the USA in security as well as in economic activity, thus increasing its already extensive regional role (Sudo 1991:16). The 1990 Asian Pacific Cooperation Conference revealed that a Pacific Asian group could not emerge without the full participation of ASEAN. Despite a number of diplomatic initiatives by Japan during 1991, notably the Tokyo meeting on Cambodia and participation in the so-called 'Marshall Plan' for the Philippines, it is clear that some members of

ASEAN, particularly Indonesia, remain extremely wary of involvement in a trading bloc dominated by Japan. This view is reinforced by the reaction of the other members to Malaysia's proposal for the formation of an East Asian Economic Group comprising ASEAN, the East Asian NICs, China and Japan (Vatikiotis 1991).

It may be that restricted access to the American and European markets will increase Pacific Asian trade, and regional co-operation. The proposed APEC (Asian Pacific Economic Co-operation) is gathering increasing support (see Dean Forbes in Chapter 3).

It is the stated aim of Indonesia, Malaysia, the Philippines and Thailand to achieve NIC status. However, the intensification of these countries' position within the NIDL depends on the continuation of the trends giving rise to this new global pattern. As Jenkins (1984) and Thrift (1986) have suggested, the NIDL has currently recognized that these may prove to be a very temporary phenomenon. A number of countervailing trends are now appearing which may particularly affect such would-be NICs as those of Pacific Asia.

The automation of labour-intensive manufacturing processes, the erosion of labour cost advantage, reinforced by increased political uncertainty in much of the Third World, together with increased protection of developed world markets, may well result in a movement of multinational activity and investment back to the USA and the EC or to a restructured Eastern Europe. In South East Asia, despite the reduction of international tension and the settling of the Cambodian issues, there are, as noted earlier, signs of political unrest throughout the region, most obviously in the Philippines. This reflects long-term contradictions of the development process, reinforced by the pressure for economic restructuring and the transfer of power for such long-standing leaders as Lee and Suharto.

Some of the major American-based electronics multinationals, such as Motorola and Fairchild, have already begun to repatriate assembly and testing work back to the USA (Henderson 1986). A study by OECD (1988) suggests that this may become a major trend as the NICs and would-be NICs begin to lose their cost advantages over the developed economies. Similarly, there is a growing tendency for Japanese investment to flow to developed rather than Third World locations, principally a reflection of growing protectionism. With the prospect of the global economy moving towards highly managed regional trading blocs (GATT 1988), Hong Kong, Singapore, South Korea and Taiwan are beginning to follow the Japanese lead. It is likely that these flows will increase with, for example, the prospect of increased protection of the EC market after 1992 (Wilson 1988). The opening of Eastern Europe to international capital may in the long term also divert activity away from Pacific Asia.

The opening of the Asian socialized bloc to international capital may well also divert investment away from the ASEAN four, thus producing a more diffused pattern of manufacturing development rather than further significant concentration. Indeed, the accelerating regionalization of the global economy, together with the emergence of Asian sub-regions, has already concentrated minds wonderfully within ASEAN. After twenty-five years of failure to translate the rhetoric of economic co-operation into reality, fears of protectionism have compelled the leaders of ASEAN to agree a free-trade area over the next fifteen years. As the Prime Minister of Singapore, Goh Choh Tong, is quoted as saying:

> Unless ASEAN can match other regions as a base for investment as well as a market for their products, investments by MNCs are likely to flow away from our part of the world.
> (*Guardian* 11 January, 1992)

The various scenarios outlined here, while almost certainly leading to the greater integration of the Pacific Asian economies in one way or another, draw attention to the degree to which the region will become of greater significance to the global economy, to the prospect for further Pacific Asian economies becoming NICs, and also to the intensification of Asian and South East Asian regional divisions of labour.

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