

PART II: EMPIRICAL ANALYSIS

Chapter 7

Regional conditions in East Asian development

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1. Introduction

Much of the debate on the 'East Asian Miracle' has focused on its national conditions. These approaches will be discussed elsewhere in this volume. Our present analysis will be on regional conditions of East Asian economic transition, including the region's relationship with the United States, in terms of geopolitical relations and regional investment and trade networks. Our discussion will mainly focus on developments in the period 1985-2000 and on first and second generation NICs. East Asian development will in the following be a summary term for development in both East and Southeast Asian NICs.

Section 2 of this chapter provides a brief theoretical survey of regional impacts on the 'rise and decline of East Asia' that will inform the present discussion. Section 3 is a discussion on the developmental state and structural difference between first and second generation NICs. In section 4 comes an overview of the East Asian geopolitical setting and regional organisations with main emphasis on ASEAN. In section 5 follows a presentation of the sequence of regional investment in 'generations' of East Asian industrialisers. This is linked to a discussion of the two dominant regional groups of actors in the economic integration of East Asia through foreign direct investment, i.e. Japanese and overseas Chinese FDI in sections 6 and 7. Thereafter follows a discussion of the regional investment order and the Asian financial crisis in section 8. Section 9 discusses the competitive position of the East Asian second generation industrialisers, the 'ASEAN-4' countries Thailand, Malaysia, Indonesia and the Philippines, positioned between the 'first generation' of East Asian Newly Industrialised Countries (EANICs),

Taiwan, South Korea, Hong Kong and Singapore on the one hand and 'third generation' industrialiser China and Vietnam on the other.

2. Theoretical perspectives on regional development and crises

The role of Japan in East Asian industrialisation has been analysed in terms of the so-called flying geese theory. This theory focuses on the development and relocation of industrial branches through foreign direct investment. It posits that 'mature' industries are relocated from the more industrialised countries to the less industrialised ones through foreign direct investment. In this order early industrialiser Japan is the region's 'lead goose' and largest supplier of foreign investment, followed by subsequent 'generations' of industrialisers (Ozawa 1993; Arrighi, Ikeda and Irwan 1993; Kwan 2001: 16-18). There has also been an emphasis on the role overseas Chinese business networks based on common dialect group, clan or ancestral hometown on the Chinese mainland, encompassing Southeast Asia, China (in particular the south east), Hong Kong and Taiwan. These networks have facilitated trade, foreign investment and transmission of technology, know-how, marketing networks, etc. (Chan 2000)

In other accounts it is argued that these regional Japanese and overseas Chinese investment and trade networks relied on particular geopolitical conditions. Export-promoting industrialisation in the non-communist 'Pacific Rim' benefited from US geopolitical favour during the Cold War in the form of aid, privileged access to US home markets and US effort to re-establish economic relations between Japan and its East Asian neighbours. US favour decreased in the 1970s with the US-Chinese accommodation and US disengagement in Vietnam, but some of the countries were able to take advantage of the continuous Cold War with the Soviet Union. Also, the US accommodation with China and withdrawal from Vietnam opened up for the inclusion of China and Vietnam into the regional economic order from the 1980s and strengthened overseas Chinese business networks (Arrighi 1996; Cumings 1984).

After the 1997-98 Asian financial crisis East Asian 'failure', rather than success became a main concern. Some of the regional master variables that previously had been used to explain success were now used to explain failure. Instead of a harmonious flying geese manufacturing order with Japan in the lead it was argued that the

Japanese bubble economy of the early 1990s was 'exported' from Japan to East Asia (Bevacqua 1998). Some also argued that the investment behaviour of overseas Chinese business networks contributed to the regional asset market speculation prior to the crisis (Henderson 1999). The inclusion of China into the regional economy and the world economy as a new manufacturing exporter and the ensuing intensifying of competition was also seen as a major cause of the crisis (Anderson 1998). As for the region's relationship with the United States it was argued that US geopolitical interest in the region had declined, while US economic interests had grown, resulting in a tough US policy towards countries affected by the crisis and use of the IMF 'to open Asia' for US capital (Anderson 1998; Wade and Venoroso 1998; Woo-Cumings 1997).

In conclusion: there was a 'failure' in East Asian financial and banking system in handling a capital account liberalisation, but we do not see this as a 'model failure', that is a failure of East Asian industrialisation or that other than financial parts of the institutional set-up for economic development necessarily were wrong in East Asia. Neither can the effect of the stagnation in Japan (and the West) or the concentration of foreign direct investments (FDI) to China be seen as a 'failure' in East Asian NICs. In the case of FDI competition with China, resulting in continued fast growth in China we believe this has stimulated regional trade and softened the crises in other East Asian NICs.

Thus export led industrialisation continues to East Asian development. The interesting question for us is to what extent export-oriented development has led to changing regional conditions for industrial development, to changes in regional integration and intra-regional dynamics. We also discuss if changes in regional organisation and co-operation have promoted regional integration. However our main focus is on changes in the regional economic dynamics. To what extent is there a shift from extroverted to introverted regional development? There are tendencies of stronger intra-regional dynamics. Starting with a very limited regional economic integration, combined with an out of region export oriented development, a slow but increasing process of regional integration has taken place both in terms of intra-regional trade and investments and political institutional initiatives. Finally, using a triadisation

global framework, the shift from dominantly Japanese to Chinese influence will be discussed

3. The regional state system and regional organisations. – An externally dominated political order

Most states of East and Southeast Asia have been European, US or Japanese colonies and became independent after World War II. Japanese colonialism and imperialism created strong anti-Japanese sentiments in the region. The resulting cleavages from the colonial/imperialist period were criss-crossing the divisions between communist and non-communist states related to the Cold War (actually a very hot war in this region) and regional civil wars in China, Korea and Vietnam. Bilateral security ties were established between the United States and non-communist 'Pacific Rim' countries from the late 1940s onwards with Japan, South Korea, Taiwan, South Vietnam, Thailand and the Philippines as main regional allies (later also Indonesia from the Suharto period). These alliances were mainly directed against China and an element in US containment policy.

The US allies benefited from large amounts of economic and military aid, military procurement and favourable conditions for export to the United States.²¹ The United States also sought to promote diplomatic reconciliation and trade and foreign investment links between Japan and her non-communist neighbours as part of its containment strategy. With US assistance Japan used its economic power through foreign aid and foreign investment (frequently closely interrelated) to enhance its regional political influence. This sustained the expansion of Japanese foreign investment in regional manufacturing which started in the late 1960s.

The regional Cold War order began to dissolve from the early 1970s with the rapprochement between the United States and China and the US disengagement from Indochina. US aid to regional allies now dried out. From the 1970s the United States was pursuing a tough trade policy against Japan. In the 1980s trade policy pressure was extended to Taiwan and South Korea and in the 1990s also to ASEAN-4 countries. Still the United States remained the region's single largest outside export market and the US trade deficit with the

region was expanding during the 1980s. Détente along with market economic reforms in China and Vietnam in the 1980s allowed for the integration of these socialist countries into the regional investment order. In this process overseas Chinese business networks were strengthened through investment in the Chinese mainland and in the region.

Regional political integration has been weak. ASEAN has been the key player. ASEAN was established in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. It was designed as a regional conflict management regime for negotiating disputes that had flared between the member states during 1965-67. ASEAN was later extended to include Brunei (1984), Vietnam (1995), Myanmar (1997), Laos (1997) and Cambodia (1999). In the 1990s ASEAN promoted a region-wide dialogue on security issues through the ASEAN Regional Forum.

An ASEAN Free Trade Area, AFTA came into effect in 1993 to reduce tariffs (to between 0 to 5 %) and ease restrictions on foreign investment over a 15 years period (in 1998 the deadline was changed from 2008 to 2002 for the original five ASEAN members and Brunei) (Kumar 2001:35-36). Still, intra-ASEAN trade has been limited. During the high-growth period 1990-97 there was only a modest increase in intra-ASEAN export as a proportion of total ASEAN export from 18.9 to 23.6 percent, and a significant part of this trade consisted of raw materials that were not legible for liberalisation. By comparison the export of the original ASEAN countries Singapore, Malaysia, Indonesia, Philippines and Thailand to non-ASEAN Asian countries (mostly in East Asia) amounted to 35.1 percent of their total export in 1997. The regional dynamics in ASEAN as such seem small. However if you look at these figures combined, export to ASEAN and Northeast Asian countries amounts to almost 60 percent, which points to a rather strong regional integration in trade, if trade relations between Japan, the more developed first generation NICs and the second generation NICs and China all are taken into consideration.

'The ASEAN way' of co-operation may to some extent explain the limited accomplishments of ASEAN economic integration. The postcolonial setting of the ASEAN countries (excepting Thailand) has helped to fashion a strong common concern with national sovereignty that has been institutionalised in the organisation. The

binding power of ASEAN over its member states is limited as decisions are based on consensus. Reflecting concern about national sovereignty, ASEAN member states have not been willing to vest strong power in a central secretariat. Most administrative work is done by ASEAN secretariats housed in the foreign ministries of each member state (Stubbs 2000: 314).

AFTA has been marred by exceptions and non-tariff trade barriers. More fundamentally, it has only accomplished 'shallow economic integration'. ASEAN has shied away from harmonisation of trade, investment policies or macroeconomic integration. Concern about sovereignty has probably been reinforced by structural economic relations among the ASEAN countries. The lack of complementary economic relations within ASEAN-4 in terms of export production and export markets and their ensuing competitive relations impede deep integration (Schmidt 2002).²² However there has been a marked increase in intra-ASEAN trade since the inception of AFTA (from 17.6 % in 1992 to 21.2 % over 1992-97) and intra-ASEAN export share (from 21.4 % in 1993 to 25,4 % in 1997). Initiatives for industrial cooperation in ASEAN (AICO) in 1996 and ASEAN investment area (AIA) in 1998 also show an increasing understanding of the importance of industrial regional integration of markets, increasingly pushed for and used by TNCs. (Kumar 2001:37-39).

Still regional dynamics do not seem to come from inside ASEAN, neither economically nor politically. A new role for ASEAN may possibly be determined from stronger economic powers. A few examples of the new development can be mentioned: Regional trade between China and ASEAN countries is now over 40 billion USD (compared to ASEAN-India 8.5 billion). As mentioned, political initiatives for ASEAN integration have long been rather ineffective, '... stuck in framework agreements, work programmes, and masterplans' (The Strait Times 5 November 2002). However a combined pressure of expected future stagnation in outward export to Japan and the US, but growth of the Chinese and East Asian markets, seems to form a new regional dynamics and awareness among

²² East Asia appears to be dominated by a 'Ricardian' regional division of labour, where economic integration is strongest among countries with different levels of economic development and complementary economic specialization. This is a major difference from EU economic integration with considerable intra-branch trade between countries with relatively similar levels of economic development.

ASEAN leaders. During the ASEAN summit in Cambodia China has signed a framework agreement with ASEAN to realise a free trade pact by 2010 (2015 for Cambodia, Laos, Vietnam and Myanmar). China wants to see ASEAN as the leading organisation in East Asian integration. Chinese initiatives influenced India to step up its new Look East policy and suggest a Free Trade Area Agreement between ASEAN and India (however India is still marginal to regional development and therefore left out here). Singapore put forward a plan turning ASEAN to a single ASEAN market by 2020, an ASEAN Economic Community (AEC) along the lines of the European Economic Community. Japan is also suggesting a Free Trade Area with ASEAN and has already signed such an agreement with Singapore. Thus individual ASEAN countries can also go ahead bilaterally and use the political competition to look for the most favourable conditions (Yahoo News 4 Nov. 2002, The Strait Times 5 Nov. 2002, The Indian Express 4 Nov. 2002, Asia Times online 10 August 2002). The new political competition has suddenly given new momentum to ASEAN, but ASEAN is politically so fragile and economically so little integrated that you cannot know of its future role. China, Japan and the US may as well set the agenda.

A process of regional political integration has then been progressing at a moderate pace in Southeast Asia, bridging previous Cold War divisions. In contrast, in Northeast Asia divisions related to the region's civil wars and the Cold War continued with hostilities between China and Taiwan and the two Koreas and the stationing of some 80,000 US troops in South Korea and Japan.²³ Also a deep Chinese distrust against Japan remained.

Furthermore, Japan has been reluctant to end its special security relationship with the United States. Japanese authorities have willingly ceded to US demands for military 'burden-sharing', possibly in order to win US acceptance of large Japanese trade surpluses and protectionist barriers. Japan is now subsidising the key US military base in Okinawa (Johnson 2001).

Thus, Northeast Asian divisions and Japanese reliance on the United States both seem to be major obstacles to formalised regional political integration in East Asia. Still, East Asian regional economic

²³ In contrast, the major US military stronghold in Southeast Asia, the Subic Bay naval base in the Philippines was closed in 1992 and turned into civilian use.

integration is primarily driven from Northeast Asia through investment and investment-related trade. There are strong economic ties between Northeast and Southeast Asia, as well as within the 'Greater China' area of China, Hong Kong, Taiwan and the southeast provinces of China. Economic ties among ASEAN members are fairly modest despite of a relatively developed regional political framework.

There is then a 'mismatch' in terms of regional political and economic integration. Regional economic integration has mainly taken place 'from below' through trade and investment. Integration is strongest between generations of East Asian industrialisers with differing levels of economic development. Trade between these countries is to a large extent generated by foreign direct investment (FDI) and mainly by investments from first to second generation NICs.

Economic integration is smoothened through a number of informal social and political arrangements, rather than through formal diplomacy. There are informal bilateral political contacts as seen in Japan's and Taiwan's foreign aid diplomacy, ethnic-based predominantly non-state networks and sub-regional arrangements as seen in the links between Singapore, Johore (Malaysia) and Riau (Indonesia) as well as the 'Greater China area' of Taiwan, Hong Kong and China's Guangdong and Fujian provinces.

In the 1990s there were attempts to set up regional organisations encompassing the whole area of Northeast and Southeast Asia. These efforts took place in rivalry with US-dominated trans-regional and global organisations: The East Asian Economic Caucus (EAEC) vs. APEC in the early-to-mid 1990s and the 1997 Asian Monetary Fund vs. the IMF during the 1997 Asian financial crisis. Persisting US resistance and regional divisions impeded these efforts. However, US attempts to use the cross-Pacific APEC to promote strong trade and investment liberalisation also failed. (Higgott and Stubbs 1995: 526-527). In result, ASEAN remains the main regional player - or the main arena for other players in the East Asian region.

4. Comparative patterns in East Asian industrialisation

There is a marked difference in the timing of industrialisation in East Asia. The EANICs undertook import-substitution industrialisation programmes in the 1950s, which was supplemented by programmes of export-promotion from the 1960s. The industrialisation strategies of South Korea and Taiwan were based on substantial industrial policy programmes to promote key industries through tax incentives, cheap credits from state-controlled banks for prioritised activities (especially in South Korea) and expansion of state enterprises into new priority sectors (especially in Taiwan). This was accompanied by a plethora of formal and informal protectionist measures, not only during their import substitution phase of the 1950s, but also after their turn to export promotion from the 1960s. Unlike Singapore which was relying heavily on FDI in its key sectors South Korea was pursuing a nationalist strategy with focus on domestic entrepreneurs and owners. The ASEAN-4 restricted their industrialisation programmes to import substitution in the 1950s and 1960s, and only slowly embarked on strategies of export-promoting industrialisation in the 1970s, mainly within export-processing zones. It was less urgent to promote competitive manufacturing exports as ASEAN-4 unlike the resource-poor EANICs could continue to rely on resource-based exports, such as timber, rubber, tin and petroleum. In the early 1980s, the ASEAN-4 faced economic stagnation for a number of reasons (Stubbs 2000). They responded by increased efforts to attract foreign direct investment (FDI) and by setting up national investment programmes in heavy industries. The national investment programmes were less successful, whereas the inflow of foreign capital into export-oriented manufacturing from the second half of the 1980s boosted manufacturing exports. Tables 1 and 2 show the development of FDI during the 1980s and 1990s and the greater importance of FDI in ASEAN-4 as compared with the EANICs.

Table 1: Foreign direct investment as share of gross domestic investment and gross capital formation in selected East Asian countries 1981-1997

| | FDI/GDI 1981/85 | FDI/GDI 1986/91 | FDI/GFC 1995/97 |
|-------------|--------------------|--------------------|--------------------|
| Hong Kong | 10.7 | 11.4 | 9 |
| South Korea | 0.5 | 1.1 | n.d. |
| Singapore | 17.4 | 29.4 | 25 |
| Taiwan | 1.5 | 3.5 | 3 |
| Malaysia | 1.5 | 9.7 | 12 |
| Thailand | 0.1 | 6.3 | 4 |

Source: UNCTAD 1994 and 2000

Table 2: Foreign Direct Investment in US \$ millions 1990, 1998.

| | 1990 | 1998 |
|-------------|-------|-------|
| Hong Kong | n.d. | n.d. |
| South Korea | 788 | 5.415 |
| Singapore | 5.575 | 7.218 |
| Taiwan | n.d. | n.d. |
| Indonesia | 1.093 | -356 |
| Malaysia | 2.333 | 5.000 |
| Philippines | 530 | 1.713 |
| Thailand | 2.444 | 6.941 |

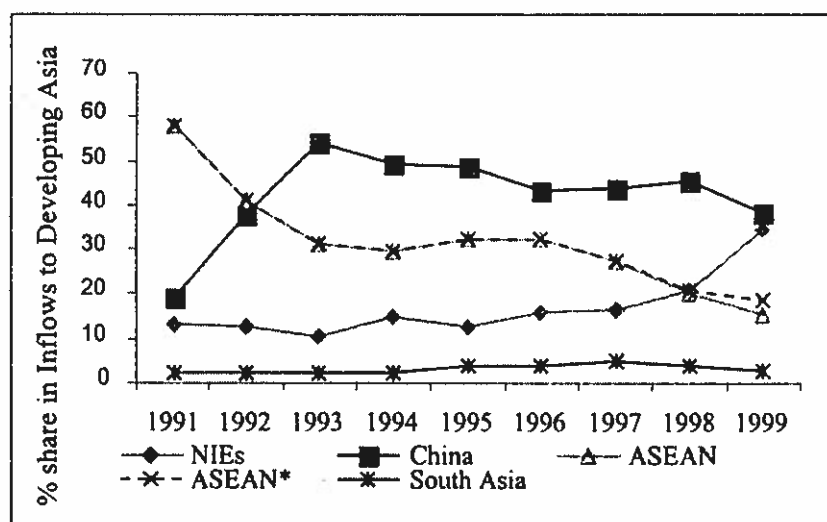
Source: World Development Indicators 2000.

China pursued yet another trajectory with long-term import substitution from the 1950s to the early 1980s within large centralised state enterprises and enterprises controlled by the local people's communes. Then from the late 1980s, export-promoting industrialisation began in China's previously non-industrialised southern coastal provinces promoted by overseas Chinese investment as well as state-owned enterprises and an emergent private capitalist class, the latter with roots in semi-public people's communes enterprises. In the 1990s China became a magnet of foreign direct investment, attracting much greater shares than the Southeast Asian countries.

The shares of FDI inflows in sub-regions illustrate this development in figure 1. FDI inflows were in 1991 largest in ASEAN, surpassed by China in 1992. But in 1998 the share of FDI inflows to EANICs surpasses ASEAN and equals China in 1999.

Figure 1: Shares of sub-regions in FDI Inflows to developing countries in Asia

Figure 5: Shares of Sub-Regions in FDI Inflows to Developing Asia



Note : ASEAN* represents share of ASEAN countries excluding divestments in Indonesia.

Source: Kumar 2001


Doner et al. (2003) analyse the political origin of Asian developmental states and make a qualitative distinction between the first (EANICs) and second generation (ASEAN-4) industrializing countries. The difference is especially marked regarding upgrading performances as indicated by industrial productivity growth, R&D and education of scientists and engineers. This also explains the growing attractiveness for inflows of FDI to EANICs as seen in figure 1. The structural change to high-tech manufacturing exports is on the other hand rather similar between the two groups. The difference in structural change and economic upgrading between first and second generation NICs are summarised in tables 3 and 4.











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Date: Fri, 21 Jul 2006 21:38:42 +0800

From: bwjones@ruc.dk 

To: eprag@ruc.dk 

Subject: Re: Hallo from Ebbe

Dear Ebbe,

So good to hear from you. I am glad that you are making progress with your work on Benin. I have not really known where to start on Igboland. But this weekend I am off to a village to see how things go there.

I realise I begin to sound like a naive east Africanist, but I was truly puzzled to see, in concrete and glass all of these homes that rich Igbos build in the village that they really never have any intention of living in. I think I am tempted to look at rural politics again, seeing what these absences mean and trying to get beneath the rather lazy literature on the Biafran war that dominates Igbo studies (does that sound appealing)?

Nigeria, in true former military regime style, has no provision for people to come here simply to do research, so I will have to bounce in and out of the country. Which is not ideal, so a trip to Benin when you are there would be very nice, if you would host me.

Yes, a Yoruba friend of mine e-mailed me to complain about the hot weather in BIRMINGHAM, so it must be truly terrible weather in Europe (nsukka is a calm 25 degrees).

Not much more to report. An interesting place, and the campus at least has a senior staff club which is very welcoming, and where I get to hear about how wonderful the village is by people who do not intend to live there.

Look after yourself and enjoy Sweden

Ben

Quoting eprag@ruc.dk:

> Dear Ben!
 >
 > Just a short hello before going on holydays in Sweden. I have heard from
 > Karen
 > that you have arrived well and sane in you research area and has found a nice
 > place at the campus with trees and flowers. I was in Senegal for 9 days -a
 > short trip to discuss a new literacy program with the farmer/ rural
 > association
 > Maisons Familiales Rurales. It was interesting to be back and discuss with
 > some
 > of my former contacts though we did not have much time we managed to visit a
 > centre in the Murid heartland. I really regret that I did not have time to
 > visit some of the women in Cherif Lô where I did most of my fieldwork, but I
 > hope to come back some day soon.

>
> Otherwise, I have been writing a number of small 'essays' on various themes
> building on the data I collected in Cotonou. I haven't touched the data from
> Parakou yet. I have had good use of your advice and tried to write simple and
> not going to far into State and Citizenship but using simple connotations as
> government, etc.
>
> I have written about the company SOGEMA which administrates the markets, the
> succession of executives and the struggles around these appointments, the two
> unions' positions, why and how women became executives etc. etc. Then I have
> written about to women from the UNSYNVEPID whom I interviewed. In the
> document
> about 'Françoise' I try to describe her trading network with the Lebanese
> wholesales and how it has been build up by her mother and grandmother and how
> her daughter now learns the business. I try to mix methodological reflection
> and new research questions into the text to prepare my future fieldwork. I
> experiment with a new ways of writing stories which are less boring, more
> open
> but it will take time.
>
> It is fairly hot in Europe with degrees in England and Denmark above 33
> degrees
> and it hasn't rained for one month in Blekinge. This night and morning it has
> rained in Copenhagen and it was extremely refreshing. Water.
>
> Dorte and I are going shopping for the holidays because we receive a number
> of
> visitors - family and friends.
>
> Hope that you are well and that the work progress.
>
>
> Yours truly,
>
> Ebbe
>
>
>
>
>

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Table 3: Structural change in East Asia

| | GDP growth (% change, 1965-1999) | Manufacture d Exports (% of GDP, 1965) | Manufacture ed Exports (% of GDP, 1999) | Agricult ure (% of GDP, 1965) | Agricultu re (% of GDP, 1999) | Labor force in agriculture (% of labor force, 1980) | Labor force in agriculture (% of labor force, 1995) | High-tech exports (% of Manufactur ed Exports, 1995) | High-tech exports (% of Manufactur ed Exports, 1999) |
|--------------|----------------------------------|--|---|-------------------------------|-------------------------------|---|---|--|--|
| Taiwan | 5.8 | 35.06 | 26.59 | 6.77 | 2.55 | N/A | N/A | N/A | N/A |
| Korea | 7.96 | 17.34 | 31.8 | 36.45 | 4.99 | 34 | 12.5 | 26.07 | 32.20 |
| Japan | 4.57 | 33.73 | 23.51 | 9.82 | 1.72 | 10.4 | 5.7 | 26.57 | 26.69 |
| Singapore | 8.79 | 14.79 | 25.88 | 2.85 | 0.16 | 1.3 | 0.2 | 54.15 | 60.90 |
| Hong Kong | 6.85 | N/A | 6.18 | N/A | 0.13 | N/A | N/A | 20.57 | 21.08 |
| NICs Avg. | 6.79 | 25.23 | 22.79 | 13.97 | 1.91 | 15.23 | 3 | 31.84 | 35.22 |
| Thailand | 6.94 | 14.17 | 32.37 | 31.92 | 10.46 | 70.8 | 52.1 | 24.55 | 32.40 |
| Malaysia | 6.86 | 9.45 | 31.52 | 28.75 | 10.68 | 37.2 | 20.0 | 46.14 | 58.95 |
| Indonesia | 6.12 | 8.35 | 25.44 | 55.99 | 19.48 | 55.9 | 46.1 | 7.34 | 10.38 |
| Philippines | 3.76 | 19.5 | 21.48 | 25.85 | 17.73 | 51.8 | 44.1 | 35.08 | 58.69 |
| ASEAN-4 Avg. | 5.92 | 12.87 | 27.70 | 35.63 | 14.59 | 53.93 | 40.57 | 28.27 | 40.11 |

Source: Doner et al. 2003

Table 4: Upgrading in East Asia

| | Industrial Productivity growth) 1980-1994 | R&D (% of GDP) | World Competitiveness Rankings of science and technology 1999 | Scientists Engineers and Technicians per million capita | Tertiary Science and Engineering students (% of population, early 1990s) |
|------------------------|---|----------------|---|---|--|
| Korea | 13 | 2.71 (1995) | 28 | 2511 | 1.34 |
| Taiwan | 11.4 | 2.05 (1999) | 10 | 2980 | 1.09 |
| Singapore | 10.5 | 1.13 (1995) | 12 | 2619 | 0.56 |
| <i>NICs Average</i> | <i>11.6</i> | <i>1.96</i> | <i>16.7</i> | <i>2703.3</i> | <i>1.0</i> |
| Thailand | 8.9 | 0.1 (1997) | 46 | 142 | 0.32 |
| Indonesia | 5 | 0.1 (1994) | 47 | 206 | 0.13 |
| Malaysia | 4.7 | 0.22 (1996) | 32 | 125 | 0.15 |
| Philippines | 7.4 | 0.2 (1999) | 33 | 179 | N/A |
| <i>ASEAN-4 Average</i> | <i>6.5</i> | <i>0.155</i> | <i>39.5</i> | <i>163</i> | <i>0.2</i> |

Source: Doner et al. 2003.

5. A flying geese investment order?

Theories on an East Asian flying geese investment order tend to assume implicitly or explicitly that the East Asian investment order has relied strongly on finished goods export markets outside the region, mainly in North America and West Europe. The US markets have played a particularly important role. In the 1980s the US current account deficit soared. On the one hand growing US demand provided a stimulus for export-oriented industrialisation, on the other hand the growing US demand for capital pushed up international interest rates. Thus, the US development contributed strongly to a bifurcation of Third World growth trajectories (Arrighi 2002). US competition for international capital funds and the ensuing international interest rate hike unleashed the Third World debt crisis with severe economic setbacks in Sub-Saharan Africa and Latin America. East Asian countries mostly had a lower level of debt than

the countries of Latin America and Africa and were in a better position to take advantage of booming US export markets as indicated by booming East Asian export to the United States and swiftly growing US trade and current account deficits with the region.

US market expansion went along with a reorganisation of regional producer networks. Japan had invested heavily in its pre-war empire in Taiwan, Korea and Manchuria and also in China and Southeast Asia before 1945, but its role as regional investor was temporarily ended by its defeat in the Pacific Wars. Japanese foreign direct investment in manufacturing and resource extraction in East- and Southeast Asia resumed in the late 1960s, increased throughout the 1970s and then stabilised during the first half of the 1980s before it boomed from the late 1980s. In the 1980s Japan became the major foreign investor in the region.

In the flying geese theory lead goose Japan provides birth help to East Asian industrialisation through foreign direct investment. The EANICs, South Korea, Taiwan, Singapore and Hong Kong started to industrialise in the early 1960s and received Japanese foreign investment from the late 1960s. In the 1980s both Japan and the EANICs invested in second generation industrialisers of Southeast Asia, especially the ASEAN-4 countries Malaysia, Thailand, Indonesia and the Philippines. This was followed by a new round of investment in China and Vietnam from the late 1980s/early 1990s.

The flying geese theory understands economic development as a rather linear and inevitable process. In its crude versions the theory posits an automatic product cycle argument where industries are relocated through FDI as they mature. This is however far too simplistic. The impact of exchange rate changes, financial, labour market and educational policies, impacts of trade policies in the West and 'embedded' transnational investment networks would also have to be taken into account to understand regional FDI flows.

As for exchange rate policies, there has been a close correlation between the yen-dollar exchange rate and Japanese foreign investment into East Asia (with a due time lag from exchange rate changes to Japanese investment) (Kwan 2001: 39-42). Currency appreciation played a major role in triggering foreign investment by Japan into East Asia. In 1971 the United States floated the dollar with

an ensuing revaluation of the yen against the dollar and increasing production costs for domestic producers in Japan. This triggered growing Japanese foreign direct investment in regional manufacturing in the 1970s.

During the strong dollar-period of the early 1980s, Japanese regional investment stabilised. There was a continuous appreciation of the yen relatively to the dollar during 1985-95. Major Japanese companies responded to declining domestic competitiveness by relocating core manufacturing export production to Japan's East Asian neighbours. Japanese foreign direct investment declined after 1995 as Japanese and US monetary authorities co-operated to lower the exchange rate of the yen relatively to the dollar.

Soon after the 1985 Plaza Agreement also South Korea and Taiwan faced US trade policy pressure to appreciate their currencies. Furthermore, rising domestic wage levels and land prices undermined their competitiveness within low-skill activities. In 1989 the United States also 'graduated' Taiwan and South Korea from its general system of trade preferences. Thus, there was a worsening of the competitive position of Northeast Asia that coincided with devaluation and policy packages to promote export and foreign investment in Southeast Asia and China. Japanese investors in Southeast Asia were soon followed by investors from South Korea and Taiwan, contributing to growing economic integration between Northeast Asia and Southeast Asia and an economic boom in Southeast Asia from the late 1980s. Companies from Taiwan and Hong Kong were also investing heavily in Mainland China.

The United States and other Western OECD countries were the main targets of the export of finished goods resulting from the build-up of regional manufacturing capacity through FDI from Japan and the EANICs. Relocation of export production helped the Northeast Asian countries to dispel some of the trade policy tension with the United States. Japan's trade surplus with the United States has been relatively stable after the late 1980s, while the surplus of the EANICs has declined. This went along with a strong increase in the surpluses of the ASEAN-4 and China that all received large investment from Japan and the NIEAs into their export manufacturing.

Investments from Japan and the EANICs have stimulated increasingly dense intra-regional trade in manufacturing inputs.

However, Japanese companies normally declined to move production for Japanese markets abroad, only their production for regional markets and for export to third countries. Thus, export of finished manufactured goods from East Asia to Japan was depressed, while the region relied on increasing imports of key inputs from Japan. In result, regional trade deficits with Japan tended to grow. The East Asian countries then had to rely on trade surpluses earned with countries outside the region, especially with the United States, to cover their trade deficits with Japan (Bernard & Ravenhill 1995; Hatch & Yamamura 1996: ch. 10).²⁴

In institutional terms, the Japanese regional investment boom can be seen as an extension of the Japanese business system. The Japanese economy has been dominated by horizontal business groups (keiretsu) that included companies, banks, insurance companies and trading companies. The major manufacturing corporations established stable multi-tiered vertical subcontractor networks with smaller companies. To some extent these structures were projected into the East Asian region through regionalisation of the lower-tier Japanese producer networks. In particular during the early period of Japanese expansion there was extensive use of Japanese suppliers or of local partners which concealed the control of the Japanese investors and trading companies of marketing, supplies of inputs, licensing and upstream flows of finished products (Arrighi, Ikeda and Irwan 1993: 58-62).

6. Overseas Chinese business networks

The Japanese foreign investment offensive in East Asia has been based on close co-operation between the Japanese government and major Japanese companies. A much more loose and diffuse type of networking with limited state-involvement evolved between ethnic Chinese in Hong Kong, Taiwan, the southern coastal provinces of China and Southeast Asia.

²⁴ China has however broken this pattern and is running trade surpluses with Japan as well as with the United States. Yet it is running a large trade deficit with Taiwan through indirect trade that mainly appears in the form of Hong Kong's large trade deficit with Taiwan.

With the Chinese economic reforms of the 1980s overseas Chinese networks were strengthened between Hong Kong, Taiwan and the China mainland. NYNYHITThe Chinese government offered various incentives to attract foreign capital and know-how to export-oriented joint ventures with national actors, primarily state-owned enterprises, from the early 1980s. US and Japanese foreign investors remained cautious due to Chinese red tape, employment protection, poor quality and irregular supplies of raw materials and currency restrictions. However, overseas Chinese from Hong Kong and Taiwan were swiftly able to benefit from the Chinese opening (despite security-related discouragement and restrictions by the Taiwan government in the latter case). They were encouraged to invest in the China mainland by special inducements as part of Beijing's reunification policy of strengthening economic ties with Hong Kong and Taiwan. Thanks to their familiarity with local culture, language and manipulation of kinship and community ties, overseas Chinese foreign investors were also able to bypass regulations that hampered other foreign investors. When major investors from Japan, the United States and West Europe came to China in the 1990s, overseas Chinese investors had already established a strong competitive position (So and Chiu 1994: 243-248).

Chinese business networks did also play a strong role in Southeast Asia. A three-tiered pattern of trade had emerged in most of Southeast Asia during the colonial period. The Europeans dominated the upper tier; Chinese occupied the middle tier; while the indigenous population was restricted to petty trade. For a long period of time overseas Chinese in Southeast Asia had developed ethnic networks based on speech group and ancestral descent. Some of these networks spanned over several countries in the region. This allowed for swift dissemination of information, mobilisation of cheap credits and movements of capital into new enterprises and geographical areas, access to labour from fellow underclass kinsmen and market outlets. The high mobility of capital within and across borders and the ethnic exclusiveness of economic interaction protected against confiscation by governments (Lim 1983: 3-4, 6; McVey 1992: 20-21).

Chinese business was able to move into economic positions that earlier had been held by the colonisers after de-colonisation (McVey

1992: 20).²⁵ Chinese business was further strengthened by the growing investment in the region from the late 1980s by Taiwanese and other overseas Chinese who had a strong preference for local Chinese partners. While Japanese investors frequently brought along their domestic supplier networks as they moved abroad, Chinese investors were more willing to co-operate with local Chinese suppliers (Jomo et al. 1997: 49).

As compared with Japanese or Korean business networks the Chinese networks have some important characteristics. The former have been strongly oriented by 'nationalist' strategies of vertical control (albeit not necessary formal ownership) of all levels of the production chain, including marketing in Western OECD countries. In contrast Chinese business networks have tended to settle with intermediary producer or sales positions in Western controlled commodity chain, a strategy, which still in many cases has allowed for strong technological upgrading. For instance Taiwanese electronics producers have established elaborate networks with Chinese subcontractors in Southeast Asia and China, while themselves serving as key suppliers of components and OEM for US high-tech merchandisers (Hamilton 1999: 55-57).

7. East Asian models of accumulation and their destabilisation

East Asia was a dollar bloc, rather than a yen bloc, where most foreign trade and investment were conducted in dollar. Excepting the yen, regional currencies were linked to the dollar from the mid-to-late 1980s until the 1997 regional currency crisis (including the currencies of China and Vietnam in the early-to-mid 1990s). This also meant that the currencies were loosely tied to one another. These arrangements protected against competitive devaluation and helped the countries to stabilise domestic price levels, while yen appreciation enhanced the region's competitiveness relatively to Japan and encouraged the inflow of Japanese investment (Sum 2002: 58; McKinnon 2000).

Furthermore, this implied that there was a favourable relationship between the Japan-led regional-national production order financed

²⁵ Similarly, in independent Thailand the removal of Europeans during World War II allowed Chinese to take over local banking.

by export-oriented FDI and a monetary-financial order where regional currencies were linked to an American-dominated dollar-bloc regime and linked with a yen-appreciating bubble in the period 1985-95. Yet these two orders were also vulnerable to crises (Sum 2002).

With the exception of the Philippines and partially also Taiwan, the EANICs, the ASEAN-4 and China, have had high rates of saving and investment as shown in table 3.26 This may be viewed as a necessity of late industrialisation. Excepting Japan, the countries were competing within export markets with low barriers to entry, while they were attempting to undertake industrial upgrading to conquer niche markets and move into high-profit yielding export markets.²⁷ Low profits and fast manufacturing expansion with industrial upgrading required large volumes of investment and credit (Sum 2002: 58).

²⁶ Wade and Venoroso (1998) refer to an East Asian high-debt model characterized by high rates of saving and investment and banking systems that pool household savings to highly debt-leveraged companies overseen by governments that actively intervene in the financial systems and control the capital account. The Asian financial crisis is explained as a result of the destabilization of this order through financial liberalization. This model is far too generalizing as there are great regional variations in household saving, corporate debt-to-equity ratios, system of financial intermediation (banks or capital markets) and government intervention in the credit system.

²⁷ The NIEAs have come close to the stage of transition into high-profit yielding activities over the past decade, while the economies of Southeast Asia and China still are dominated by low-profit-low-barriers-to-entry export production. See Kaplinsky (1999) who argues that among the NIEAs Taiwan and Singapore are closest to a successful transition, while Korea and Hong Kong are more dubious.

Table 5: Saving, investment and GDP growth in select Asian countries 1981-95 (%-rates)

| | | Average 1981-90 | 1991 | 1992 | 1993 | 1994 | 1995 |
|------------------------|------------|--------------------|------|------|------|------|------|
| NIEAs | | | | | | | |
| Hong Kong | Saving | 33.5 | 33.8 | 33.8 | 34.6 | 33.9 | 34.5 |
| | Investment | 27.2 | 27.2 | 28.5 | 27.6 | 31.8 | 33.1 |
| | GDP growth | 6.9 | 5.1 | 6.3 | 6.4 | 5.4 | 4.6 |
| South Korea | Saving | 32.4 | 36.4 | 35.2 | 35.4 | 35.5 | 37.0 |
| | Investment | 30.6 | 38.9 | 36.6 | 35.1 | 35.9 | 36.0 |
| | GDP growth | 12.7 | 9.1 | 5.1 | 5.8 | 8.4 | 9.2 |
| Singapore | Saving | 41.8 | 44.0 | 45.6 | 46.3 | 51.3 | 55.6 |
| | Investment | 41.7 | 35.1 | 36.0 | 37.7 | 32.2 | 33.9 |
| | GDP growth | 6.5 | 6.7 | 6.3 | 10.1 | 10.1 | 8.9 |
| Taiwan | Saving | 32.9 | 27.8 | 27.0 | 27.0 | 25.8 | 26.3 |
| | Investment | 22.8 | 23.3 | 24.9 | 25.2 | 23.9 | 24.5 |
| | GDP growth | 8.0 | 7.6 | 6.8 | 6.3 | 6.5 | 6.3 |
| Country average | Saving | 35.2 | 35.5 | 35.2 | 35.7 | 36.6 | 38.4 |
| | Investment | 30.6 | 31.4 | 31.5 | 30.9 | 31.0 | 33.4 |
| | GDP growth | 8.5 | 7.1 | 6.1 | 6.3 | 7.6 | 7.3 |
| ASEAN-4 | | | | | | | |
| Thailand | Saving | 26.2 | 27.2 | 35.2 | 35.6 | 35.2 | 34.2 |
| | Investment | 30.7 | 42.7 | 40.0 | 39.9 | 41.0 | 40.0 |
| | GDP growth | 7.9 | 8.5 | 8.1 | 8.8 | 8.7 | 8.6 |
| Malaysia | Saving | 33.2 | 32.0 | 36.5 | 37.7 | 37.6 | 37.2 |
| | Investment | 30.6 | 35.8 | 35.1 | 37.8 | 38.7 | 40.6 |
| | GDP growth | 5.2 | 8.6 | 7.8 | 8.3 | 9.2 | 9.3 |
| Indonesia | Saving | 30.9 | 33.5 | 35.3 | 32.5 | 35.3 | 36.0 |
| | Investment | 29.3 | 32.0 | 32.4 | 29.5 | 34.0 | 38.3 |
| | GDP growth | 6.0 | 8.9 | 7.2 | 7.3 | 7.5 | 7.6 |
| Philippines | Saving | 22.2 | 16.6 | 17.0 | 15.2 | 14.9 | 14.7 |
| | Investment | 22.0 | 20.2 | 20.8 | 23.6 | 23.5 | 21.6 |
| | GDP growth | 1.0 | -0.6 | 0.3 | 2.1 | 4.4 | 4.8 |
| Country average | Saving | 28.1 | 27.3 | 31.0 | 30.3 | 30.8 | 30.5 |
| | Investment | 28.2 | 32.7 | 32.1 | 32.7 | 34.3 | 35.4 |
| | GDP growth | 5.0 | 6.4 | 5.9 | 6.6 | 7.5 | 7.6 |
| China | Saving | 30.8 | 38.1 | 38.3 | 41.5 | 41.4 | 42.2 |
| | Investment | 30.5 | 35.4 | 37.3 | 43.5 | 40.0 | 39.5 |
| | GDP growth | 10.4 | 9.3 | 14.2 | 13.5 | 11.8 | 10.2 |

Source: ADB 1996/1997: tables A1, A7, A8.

During the 1990s high regional rates of corporate investment went along with declining rates of return in most of the NIEAs and ASEAN-4 countries. The high investment levels increased the risk of over-investment for export markets that would depress export prices and profitability. A spectacular case of over-investment was South Korea's expansion in Dynamic Random Memory chips (DRAMs) that caused a 90 percent plunge in world market prices in 1996. An alternative strategy was to divert more investment into securities and real estate. That frequently led to new second-order over-investment problems as seen in the bursting of Bangkok's real estate bubble in 1996 (Sum 2002: 59, 61-62).

The regional financial order and monetary regime reinforced tendencies of overproduction and over-investment with lowered investment quality. On the supply side financial inflows in the 1990s were enhanced by the renewed inflow of First World financial capital into emerging economies after the debt crisis of the 1980s and by the bursting of the Japanese bubble. Japan's ensuing economic stagnation and loose post-bubble monetary policies from 1992 with low interest rates created surplus liquidity which 'leaked out' to East Asia.

As seen from table 5 the investment rates of ASEAN-4 were generally higher than their saving rates. This saving-investment gap was covered by capital inflows. In the early 1990s some of these countries had experienced a decline of FDI inflows, to a large extent because of the growing competition from China. They responded with capital account liberalisation in order to attract financial flows. The combination of capital account deregulation, strong growth, monetary stability with de facto dollar pegs, high local interest rates and or/lucrative markets in securities and real estate encouraged large inflows of loans (frequently short term) and portfolio investment. With these volatile forms of capital and the build up of foreign debt the countries became increasingly reliant on investor confidence, and the maintenance of their dollar peg.

The Southeast Asian model of industrialisation suffers from weak indigenous corporations (Jomo, K.S. 2001). Domestic capital, especially SMCs, have not been part of the foreign capital's technological and managerial development. Typically, MNCs are relying on external organisation and management and are not contributing much to an upgrading of local industrial structure and

innovation capacity. Only the first generation of NIEs especially South Korea and Taiwan have domestic companies, which are competitive to foreign MNCs. After the financial crisis the focus has increasingly been on developing and strengthening domestic industrial structure and innovation capacity in Singapore and ASEAN-4. The crisis revealed the consequences of being heavily dependent on foreign investment capital. The local companies, especially SMCs had not improved their cost-competitiveness and innovative capacity and they proved not to be a bulwark when foreign investments wane. Both Singapore and Malaysia have made development of large local companies to regional and international competitive companies as main objective in their economic plans.

8. Education and human resource development

Compared with South Korea and Taiwan the ASEAN-4 and to a certain extent Singapore have been slow to upgrade the level of education. In the early 1980s ASEAN-4 and Singapore achieved universal primary education. These countries reaped the fruit of this investment in human resources especially in labour intensive forms of production in 1980s. Both foreign and local investors demanded at that time mainly labour force with basic literacy knowledge. The necessary training for handling the jobs was provided at workplaces. Typically, it was short introduction courses and the further training was learning by doing. In that period governments in the ASEAN-4 and Singapore did not act pro-active in planning expansion of post-primary educations to provide human resource conditions for a leap up at a higher value-added production level. They first began to focus on post-primary education in the late 1980s and 1990s when growing competition especially in labour intensive forms of production became more pressing from lower income countries inside and outside the region. Table 6 suggests that the focus primary has been on general secondary and tertiary education while the enrolment in vocational education has not increased significantly from 1980 to 1997/98.

Table 6: Secondary and tertiary education enrolment.

| | | |
|--------------------|-------------------|---------------------|
| <u>Hong Kong</u> | <u>1980</u> | <u>1995/96</u> |
| Total | 468,975 | 473,817 |
| Vocational | 31,019 | 13,972 |
| Tertiary | 44,482 (1975/76) | 97,392 (1993/94) |
| <u>Indonesia</u> | <u>1980</u> | <u>1996/97</u> |
| Total | 5,721,815 | 14,209,974 |
| Vocational | 610,430 | 1,767,161 |
| Tertiary | 543,175 | 2,303,469 (1995/96) |
| <u>South Korea</u> | <u>1980</u> | <u>1996/97</u> |
| Total | 4,285,889 | 4,662,492 |
| Vocational | 881,287 | 949,750 |
| Tertiary | 647,505 | 2,541,659 |
| <u>Malaysia</u> | <u>1980</u> | <u>1998</u> |
| Total | 1,083,818 | 1,889,592 |
| Vocational | 18,031 | n.d. |
| Tertiary | 57,650 | 210,724 (1995/96) |
| <u>Philippines</u> | <u>1980</u> | <u>1997/98</u> |
| Total | 2,929,525 | 4,979,795 |
| Vocational | n.d. | n.d. |
| Tertiary | 1,276,016 | 2,022,106 (1995/96) |
| <u>Singapore</u> | <u>1980</u> | <u>1996</u> |
| Total | 187,532 | 207,719 |
| Vocational | 13,832 | 8,233 |
| Tertiary | 23,265 | 92,140 |
| <u>Thailand</u> | <u>1980</u> | <u>1997/98</u> |
| Total | 1,919,967 | 4,097,331 |
| Vocational | 297,114 | 738,861 |
| Tertiary | 911,166 (1981/82) | 1,522,142 |

Source: UNESCO Statistical Yearbook 1999, table II.6

Most of the technical training was done on the workplaces as there was a weak tradition of classroom vocational training in these countries. Enrolment to vocational education is falling relatively compared to general secondary education in a period where policy-makers both in governments and companies stressed the importance of expansion of technical knowledge. The figures of tertiary level blur the picture as they do not show technical studies. But statistical findings indicate that enrolment in technical studies is limited (Masuyama and Vandenbrink 2001: 15). Table 2 on upgrading shows a gap in tertiary science and engineering students between ASEAN-4

average and first generation NICs average of respectively 1.0 % and 0.2 % of the population. For instance in Malaysia, the relatively low number of students who have chosen technical subjects at the tertiary level has caused fierce debate because of its ethnical bias favouring ethnic Malays. However, most Malay students choose non-technical subjects. Compared with South Korea and Taiwan which both deliberately have directed students to technical studies at the secondary and tertiary levels, the ASEAN-4 have been less controlling in their educational policies as to provide a technical knowledge base for moving up to higher value-added forms of production.

Given the relatively poor human resource conditions in the ASEAN-4 the industries relocated from Japan (South Korea/Taiwan) have to a large extent become advanced enclaves in terms of technology transfer to domestic business and overall linkages with the domestic economy (Bernard and Ravenhill 1995; Jomo et al. 1997).

In the 1990s China became a strong competitor to ASEAN-4 within lower-end manufacturing. Exports were boosted by devaluations in 1990 and 1994, wages were lower than in Thailand and Malaysia, while the skills and level of education of the Chinese labour force frequently were better than in ASEAN-4. ASEAN-4 had exported large amounts of home appliances and consumer durable goods to China in the 1980s. By the early 1990s China had completed import substitution within these industries. The ASEAN-4 products were driven out of Chinese markets and competition from Chinese-produced goods increased in third country markets, so that ASEAN-4 exports were increasingly compressed to a narrow range of electronic products leading to enhanced economic vulnerability (Lo 1999; Hughes 2000: 238-240, table 4).

China's growing strength vis-à-vis Southeast Asia is not confined to labour-intensive goods with low barriers to entry. China has developed a strong heavy industrial base through previous decade-long import-substitution industrialisation that was strengthened by the new foreign investment inflows (Lo 1999). Also in science and technical education China's enrolment on tertiary level is rather high. The total number of student in science and engineering in all OECD countries is about the same as in China.

9. Conclusion: Towards Asian Economic Integration and Triadisation?

Although the Japanese-dominated East Asia frequently is seen as one corner in the triadic world economy, political and economic integration in this area is limited compared to the European market (EU) or the North American market (NAFTA). In our discussion we have emphasised the influence of the United States, distrust from the past, especially against Japanese violent colonisation and current rivalry between Japan and China as major causes of this situation. Let us now return to the issue of whether this situation will persist.

A couple of factors and new initiatives may be worth considering: The experience during the 1997-98 economic crises showed how vulnerable national Asian economies were in relation to Western-dominated financial flows, institutions and export markets. This combined with leadership rivalry between Japan and China and China's entry into WTO has revitalised the 'ASEAN Plus Three' initiative from 1993-94, when the then six ASEAN countries invited South Korea, Japan and China to join them in economic discussions. An academic vision group for 'ASEAN Plus Three' was set up in 1998. The group came forward with proposals for Asian currency co-operation in 2000 and an East Asian Free Trade Area for the 'ASEAN Plus Three', preferential treatment for Asian developing countries and an expansion of the ASEAN investment area to include all of East Asia in 2001.

China has lately been most active using the Free Trade Area (FTA) concept. In November 2001 leaders of ASEAN and China agreed to set up a China-ASEAN FTA over the next decade. The purpose is to develop a more integrated economic regional zone, the world's largest FTA with 1.7 billion consumers (Asia Times, 5 February and 11 May 2002). In a Memorandum of Understanding WTO and the Asian Development Bank have together agreed to promote Asian Trade.

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