The Rise of Asia and Its Way towards the 21st Century

Mariner WANG
College of Business Administration
Ritsumeikan University

I. Introduction

After the World War II ended in 1945, Asia, particularly the East Asia—Japan, the four East Asian Newly Industrializing Economies (NIEs)—South Korea, Taiwan, Hong Kong, Singapore, ASEAN4 (Thailand, Malaysia, Indonesia, Philippines) and China, has enjoyed a remarkable record of high and sustained economic growth which grew faster than all other regions of the world. East Asia's economic prosperity can be manifested by its high real Gross National Product (GDP) growth rate compared to any other country or region in the world. In the period between year 1980-1997, the four East Asian newly industrializing economies (NIEs)—South Korea, Taiwan, Hong Kong, and Singapore, ASEAN and China have experienced average real GDP growth of 7.3, 5.9 and 9.9 percent[1] respectively compared to a 3.2 percent average in world, 2.7

[1] Gross domestic Product (GDP) is an aggregation of expenditures for goods and services—outlays made for private consumption, business investment, and government calculated in any of three ways. The output method is the total of selling prices less the cost of bought-in materials. The income method is the total of wages, rents, dividends, interests and profits. The expenditure method is the national expenditure on goods and services (known as GDP at factor cost). The last method is the one most used by economists in forecasting economic growth. The Gross National Product (GNP) is similarly calculated, but includes residents' income from economic activity overseas. Real GDP is measured in constant prices, i.e. with the general rate of inflation deducted so as to record the real economic magnitude. In recent year, China, particularly southern China, has recorded remarkably high growth rates using polices that in some ways resembles those of the High Performing Asian Economies (HPAEs)), namely, Japan,

percent in Japan, and 2.0 percent in U.S.A. and EU (see figure 1).

It was the unprecedented expansion in world output and trade in the post-war era provided the Asia economies, particularly, Japan and Asian NIEs — with a conductive and stable environment for export-led growth. They were lucky to set sail on the track of industrial catching-up when the gust of wind was strongest. Consequently, from the mid-1960s to the early 1990s the four NIEs were singled out to be the most dynamic middle-income economies in the world. From this, it is comprehensive that the explosive growth of the economies of Asia is shifting the balance of world economic power eastward, away from Western Europe and the United States and towards East and Southeastern Asia. Today, five of the ten largest holders of foreign exchange in the world are Asian nations.

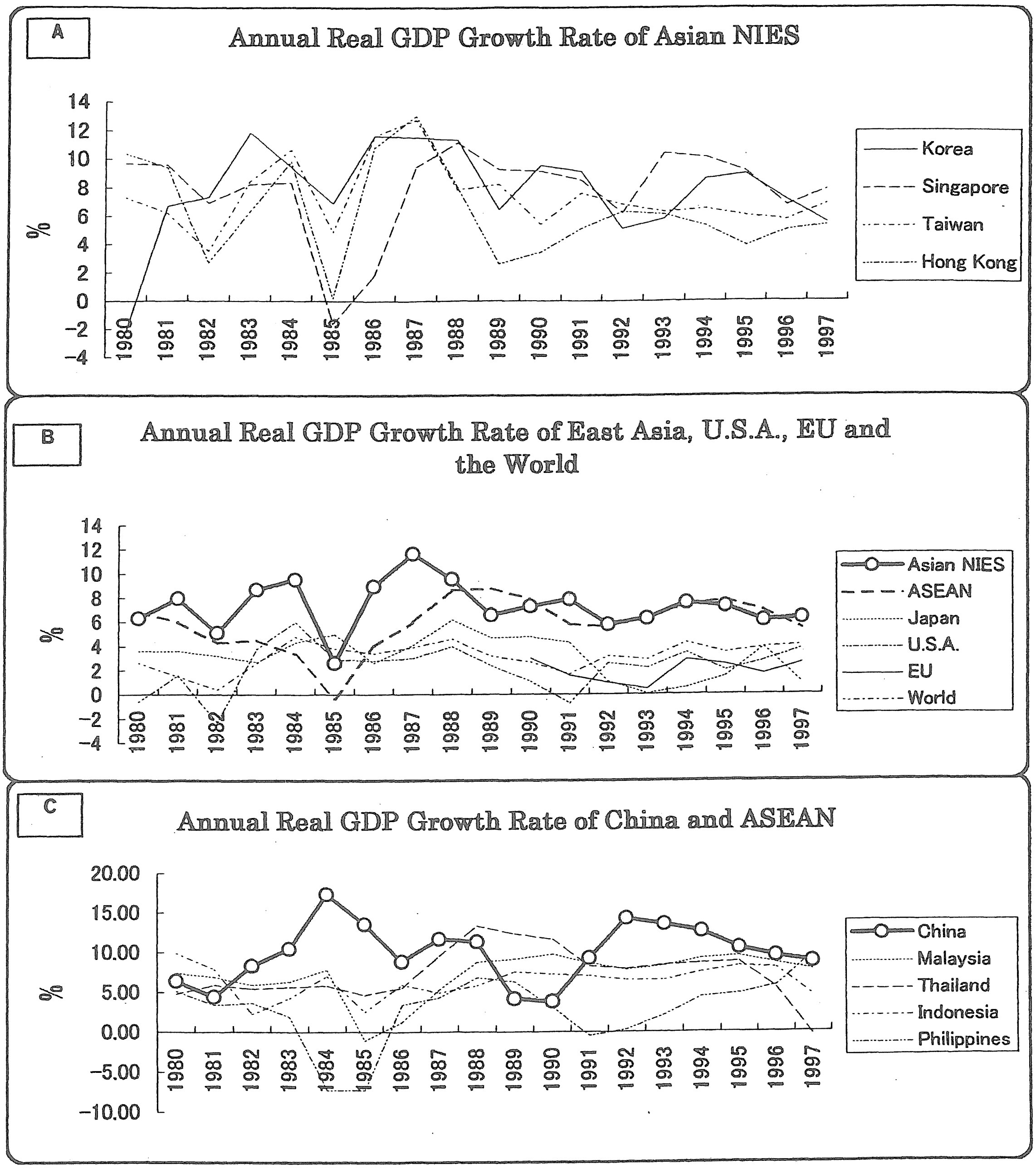
However, in July 1997, what the world had come to call the Asian miracle suddenly turned into a nightmare. Thailand, straining to meet the claims of foreign creditors and with its foreign exchange reserves dangerously depleted, announced it would no longer defend the exchange rate of its currency, the baht. Cut loose from the dollar to which it had been tied, the baht immediately nose-dived. This unleashed a chain reaction that over the next few months resulted in the collapse of the Malaysian, Indonesian, Philippine, and Korean currencies; it also reduced by half or more the asset values in these countries. Japan, without exception, also teetered on the brink of recession and the possible collapse of banking system.

Under the circumstances, can East Asia still sustain its prosperity as before toward the twenty-first century? In order to survive in the competitive world in twenty-first century what should be emphasized on Asia

This paper first tries to explore the main factors which prompt the rise of East Asia, then explicate the rise of international trade in East Asia, as well as the enlargement in the scale of intra-regional trade in Asian NIEs and ASEAN4. It also tries to find out the existing problems in East Asia, then examining the pending issues of East Asia which is to be solved towards 21st century.

Asia NIEs, China, Indonesia, Malaysia, and Thailand. See The World Bank (1993), The East Asian Miracle: Economic Growth and Public Policy for more details. See Romeo M. Bautista (1992), Development Policy in East Asia: Economic Growth and Poverty Alleviation, ASEAN Economic Research Unit, pp. 23-30, for more details.

Figure 1: The Real GDP Growth Rate of East Asia in Comparison with Other Regions in the World



Source: Based on the data of IMF, International Financial Statistics Yearbook 1996, 1998, and IMF, World Economic Outlook, May 1998.

II. The Creation of East Asia Miracle

The economic prosperity in the region of East Asia during the last decade has become the cynosure of the world. The main factors behind its buoyant economy can be dated back to 1985 when the Plaza Accord was signed by Group of 5 (U.S. A., Germany, U.K., Italy, and Japan). It expedited the Japanese yen to appreciate against the U.S. dollar drastically, expediting the second wave of Japanese enterprises' Foreign Direct Investment (FDI)[2] in Asia region. In addition, the increase in labor cost in Korean and Taiwan since 1988, as well as the drastic appreciation of the yen during 1991-1995 forced Japanese, Taiwanese, Korean enterprises and etc. to shift their production from Asian NIES to ASEAN countries and mainland China. Triggered by the dynamism of the so called flying geese pattern[3] in the economic development of East Asia, the

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[2] FDI has been defined as "the establishment or purchase by residents of one country of a substantial ownership and management share which is deemed to constitute an effective voice in management of a business enterprise or real property in another country." This form of international engagement has historic antecedents in direct European investment in America, Asia, and Africa from as early as the seventeenth century. Since the end of World War II, FDI has increased rapidly, providing the foundation for the current operation of many powerful multination enterprises. The scope of direct investment has also widened considerably, with investment in service industries (banking, insurance, tourism, retailing, and so on) as well as in more traditional activities such as manufacturing, mining, and distribution. For more details, see Alan M. Rugman, Donald J. Lecraw, Laurence D. Booth (1985), International Business : Firm and Environment, McGraw-Hill, pp.121-46. Brian Toyne & Peter G.P. Walters (1989), Global Marketing Management: A Strategic Perspective, Allen and Bacon.

[3] The concept of "flying geese" pattern of economic development that was first articulated before the war was resuscitated and elaborated to explain the spread of the Asian economic miracle. The notion was that Japan would be the leader, heading into the wind and leading the advance of the other Asian countries that would follow behind in a flight pattern like that of geese, imitation Japan and pointing the way for others still farther behind. Of course, all the geese didn't imitate Japan exactly. South Korea was probably the closest copy. Like Japan, it vigorously protected the home market, eschewed foreign investment, compelled high savings, and allocated capital to target industries through a state-guided banking system. Indeed, in its encouragement of giant combines called Chaebol, it even outdid Japan, creating a few giant entities that came to dominate well over half of the South Korean economy. Other Asian countries tended to be more open to foreign investment, and Singapore and Hong Kong were even relatively open to imports.

volume of trade as well as the extent of trade interdependence in East Asia have grown enormously. It thereby has generated a remarkable record of high and sustained economic growth unmatched by any other region in the world.

The origins of the East Asia miracle go back over fifty years to the beginning of the Cold War when U.S. economic policies toward the Asia-Pacific region were developed as a component of the broader containment policy aimed as immunizing the area against the spread of communism. While unilaterally guaranteeing the security of much of Asia, the United Stated also fostered the rapid economic development of its Asian allies and their integration into the U.S. and free world markets; this was considered a means of preventing them from being seduced by communism and undermining U.S. security policy. Initially the focus was on building up the economic power of Japan and National Security Council document 48 spelled out how "Japanese industrial capacity could and should be utilized for the positive purpose of economic recovery of the entire region of Asia.

In practice, this meant that U.S. collaboration with Japanese economic policymakers whose approach to stimulating growth had evolved out of pre-war and wartime development efforts that relied heavily on government direction of the economy in conjunction with large industrial and banking combines. The Japanese believed that the wealth and power of the United States stemmed from the application of technology to industrial mass production, and their focus was on "catching up" to U.S. levels of industrial and technological capability.

1. The Role of Japan in Bringing the Prosperity of Asian NIEs

In the immediate Post-World Ⅱ period, most Western experts advised Japan to take advantage of its abundant labor supply to focus on development of labor-intensive industries. They also recommended that, in view of its desperate shortage of capital, Japan open itself to foreign investment. By taking the advice, Japan adopted an economic model that put weight not only on labor-intensive industries such as textiles and apparel but also on rapid development of capital intensive, mass-production industries. Because strong nationalism led to strict restrains on foreign investment, the capital necessary for investment in these heavy and high technology industries had to come from savings. Thus the Japanese government introduced a variety of measures such as limitation of consumer credit, artificial elevation of commodity prices, and low taxation of interest earned on savings accounts to restrict consumption and to compel a high level on national savings. Besides, the development of stock and bond markets was also restricted, and savings were allocated through the government-guided banking system to government-backed investment in targeted industries such as shipbuilding, steel, automobiles, consumer electronics, and semiconductors, which were dominated by large combines. Domestic demand was being restrained and was not initially sufficient to justify installation of the world-class manufacturing facilities Japan wants. Thus great emphasis was placed on exporting to the United States and to other foreign markets. Japan subsidized exports while at the same time using both tariff and non-tariff measures to hermetically seal its market against imports encouraged and accommodated by the United States.

With a view to promoting Japanese exports, the United States set a ¥360/$US exchange rate that substantially undervalued the yen and continued to underwrite this fixed exchange rate for over twenty years despite rapid gains in Japanese productivity and a rising trade deficit. Further, the United States championed Japan's membership in the General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development (OECD) while allowing it to postpone adherence to certain obligations such as export subsidies, reduction of key tariffs, and import quotas for a number of years. Thus The United States fostered a system in which Japanese industry was able for a long time to investment with government guarantees and encouragement in a highly protested home market while enjoying relatively open and subsidized access to the U.S. and other world markets.[4]

As a "catch up" machine, this model was an unparalleled success. Beginning in 1952 with a GNP only 5 percent the size of U.S. GNP, Japan surpassed United Kingdom in 1967; its $5 trillion GNP today is two-third the size of the U.S. economy. Indeed, in nominal terms, Japan's per capita income of $37,000 is nearly 50 percent

[4] See Selig S. Harrison & Clyde V. Prestowitz, Jr., ed. (1998), Asia After the "Miracle": Redefining U.S. Economic and Security Priorities, the Economic Strategy Institute, for more details.

higher than the U.S. figure of $26,000.[5] This success sparked imitation for other Asian countries to begin to look the East rather than West for economic inspiration.

Asian developmental model, combined with the unilateral U.S. security guarantee and accommodative U.S. trade policies, produced an unprecedented era of growth. South Korea become the world's eleventh largest economy while income levels in Singapore and Hong Kong surpassed those of Western Europe. Total Asian production came to constitute over thirty percent of the world's GDP.

2. Asian NIEs' Industrial Promotion Policy

The crucial factor behind the success of the Asian NIEs can be attributed to the adoption of "export-led policy" (or outward-oriented industrialization strategy) which has been expediting the Asian NIEs' export growth during 1965-73 [see Figure 2] when unskilled labor-intensive manufactures were the main source of growth. By 1980 manufactured products had accounted for 88 to 92 percent of total merchandise exports in Taiwan, South Korea, and Hong Kong, while Singapore (which continued to be a significant exporter of petroleum products) had raised the export share of manufactures to 54% (from 35 percent in 1965). In that year these four countries, with less than 3 percent of the population of the developing world, contributed about 56 percent of total Less Developing Countries (LDC) manufactured exports.

The remarkable industrial export performance of the Asian NIEs was translated into rapid industrial development and labor absorption, thus increasing worker earnings and improving the distribution of income. Manufacturing production in Singapore, Taiwan, and South Korea grew at an astonishing average rate of about 20 percent during

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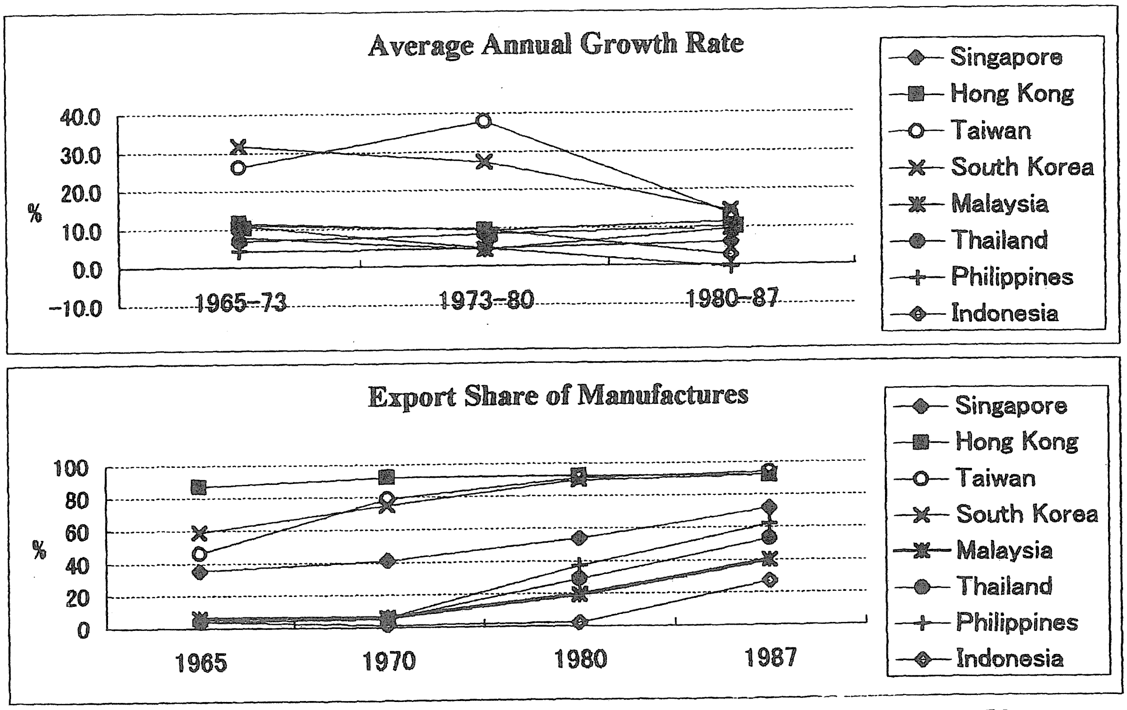
[5] Since 1945, Japan's involvement in Asia marked a new era. It has been the history of rapidly growing economic tie based on amicable political relations and steady exchange of people and culture. By the 1960's, Japan, more or less, completed its economic recovery from the wartime destruction and the establishment of a democratic political and social system. The strong national aspiration toward development, the effective combination of government leadership and private entrepreneurship, rapid internalization of imported technology, as well as the development of indigenous technology and managerial skill, and above all, hardworking and thrifty people were main factors which enable the Japanese success. Undoubtedly, many Asian countries recognized that at least some of these factors were usefully incorporated in their own development strategy.

Figure 2. Growth of Merchandise Exports and Export Share of Manufactures (1965-87)



Sources: World Development Report (1983, 1986, 19890; Council for Economic Planning and Development, Taiwan Statistical Data Book 1989; Asian Development Bank, Key Indicators of Developing Member Countries of Asia Development Bank, Vol. 14 (April 1983).

1965-73. (See Figure 3.) In Taiwan, manufacturing employment increased by 8.1 percent annually during 1960-73, which was accompanied by a 7.7 percent average annual rise in the real wage rate; the corresponding figures for South Korea during 1963-73 were 11.2 and 5.4 percent respectively (Riedel 1988, p.17).

Based on Hong's (1981) findings, the unemployment rate in South Korea declined from 7.4 percent in 1965 to 4.1 percent in 1973, a more dramatic reduction taking place in urban areas (from 14.4 percent to less than 5 percent). According to Fong (1982), Singapore reached full employment rates of over 10 percent in the early 1960s.

There can be little doubt that the adopted by the Asian NIEs has been a critical factor behind their success in manufactured exports. The economies of Hong Kong and Singapore was already highly open in 1965, with exports reaching 71 and 123 percent of GDP respectively. Hong Kong has traditionally maintained a virtual free trade regime. In Singapore there was a brief period of mid import-substitution policy in the early 1960s after separating from Malaysia in 1965 then prompting a shift to industrial promotion focusing on labor-intensive, export-oriented manufactures.[6] Largely due to the success in export industrialization and employment creation, economic policy and infrastructure development since the early 1970s have placed more emphasis on industries requiring higher levels of skill, capital, and technology. At the same time, Singapore diversified its economy into traded services, i.e. tourism, transport and communications, and financial services.

Also at a relatively early phase in their industrialization, Taiwan and South Korea switched to an outward-oriented development strategy in the late 1950s and early 1960s respectively. Economic disincentives to exporting were reduced substantially, including import tariffs and other trading barriers that earlier prompted import substitution in industrial consumer goods. The remaining biases against exports were compensated for by such export-promotion measures as export credit subsidy, tax exemption on export-related activities, and assistance in export marketing. These export

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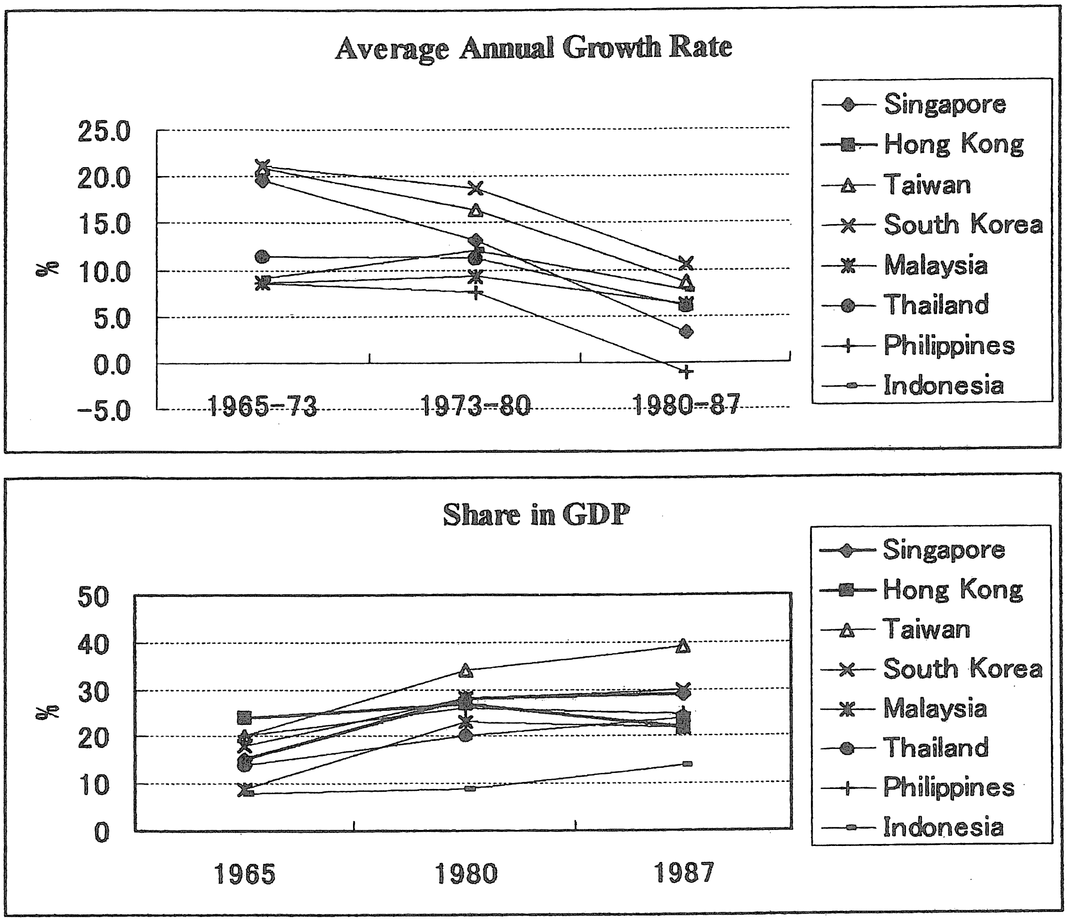
[6] Countries with larger domestic market like Taiwan, South Korea have been adopting the policy of import-substitution industrialization in the very beginning of industrialization for quite a long period. In comparison, countries with smaller domestic market like Hong and Singapore adopted the policy of export-oriented industrialization in the very beginning of industrialization. See Toshio Watanabe & Tomihiko Adachi

Figure 3. Growth of Manufacturing and Share in GDP, 1965-87.



Source: World Development Report (1983, 1986, and 1989); Council for Economic Planning and Development, Taiwan Statistical Data Book 1989; Asian Development Bank, Key Indicators of Developing Member Countries of Asia Development Bank, Vol. 14 (April 1983).

incentives were relatively invariant between industries and not insubstantial, providing an effective subsidy of well over 10 percent of gross export earning.

Taiwan and South Korea both adopted a relatively uniformed industrial incentive system to facilitate the shift from production for domestic sale to production for export which, for the most part, has been sustained over time. It is true that in South Korea during the 1970s some import-substituting industries, especially heavy chemicals and basic metals, benefited from increased protection and credit subsidy on infant industry grounds. From the very beginning, they were prodded to be internationally competitive and to start exporting within a few years. This prevented the acquisition of excess profits and the perpetuation of inefficient enterprises. It was also a selective policy that permitted the concentration of scarce resources in a few sectors at a time and provided the opportunity to exploit scale economies and linkages among closely related production activities. Even so, there was evidence of financial losses and structural distortions related to government preferences towards heavy industry development and subsidization of large firms. In 1979 a policy shift towards greater industrial neutrality and increased role for the market was articulated in the Fifth Five-Year Plan accordingly. In the 1980s industrial promotion efforts by the South Korean Government turned to financial and import liberalization as well as upgrading of the country's technological base.[7]

III. The Rise of International Trade in East Asia

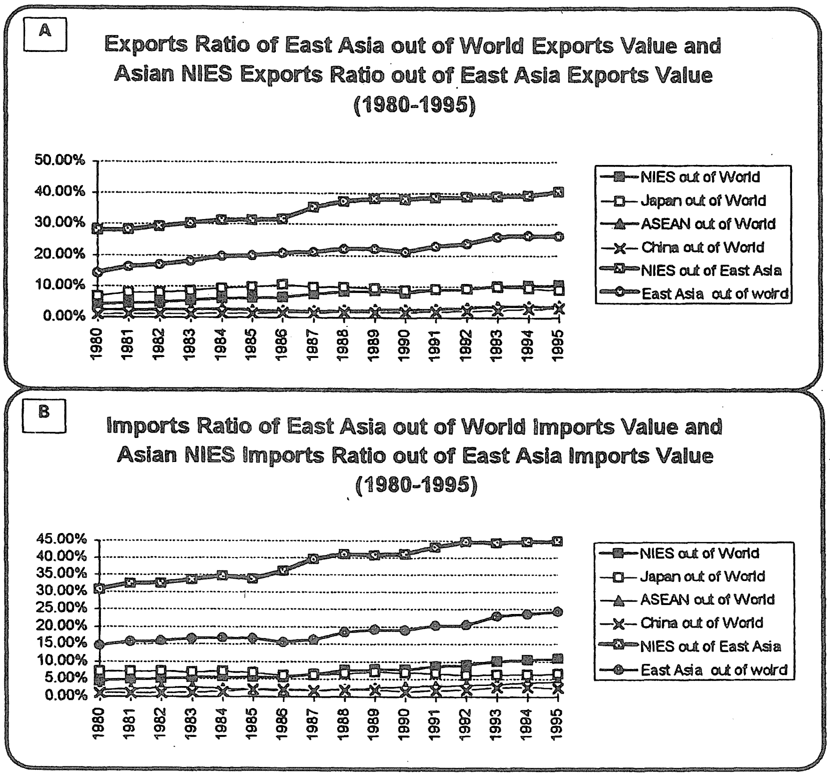
1. The Weight of East Asia in the World's Trade Value

Figure-4A and 4B indicate the ratios of East Asia region's exports and imports value to the world's total exports and imports values. It is understandable from those figures that the weight of East Asia's exports value (272.1 billion U.S. dollars) out of that of the world rose from 14.2 percent in 1980 to 26.2 percent (1,318 billion U.S. dollars) in 1995. In contrast, during the same period, the ratio of East Asia's imports

(1993), The Illustration of Asian Economy, Nippon Hyouronsha, for more details.

[7] There is a general consensus that the major explanation for East Asian economic success is the adoption of an export oriented industrialization strategy. Other developing

Figure 4. The Weight of East Asia in the World's Trade Value



Source: IMF (1996), International Financial Statistics Yearbook.

value to the world's total imports value climbed from 14.7 percent (288.8 billion U.S. dollars) to 24.4 per cent (1,241.7 billion). However, when focusing the target on Asian NIEs, we can realize that from 1980 to 1995 the weight of Asian NIEs' exports value out of East Asia's exports value climbed from 28.1 percent (76.4 billion U.S. dollars) to 39.3 percent (532.7 billion U.S. dollars). During the same period, the weight of Asian NIEs' imports values out of East Asia's total imports value ascended from 30.6 percent (88.5 billion U.S dollars) to 44.8 percent (556.1 billion U.S. dollars). These astonishing performance makes the weight of Asian NIEs' exports／imports value out of the world's exports／imports value, from 1980 to 1995, to rose from 4 percent to 10.6 percent, and 4.5 percent to 10.9 percent respectively.

It is also realized from the same figures that Japanese has been taking the leadership in the world trade in terms of exports and imports value in East Asia region. However, its weight of imports／exports out of the world since 1987 (151 billion U.S. dollars)／1992 (339.9 billion U.S. dollars) stood at 6.2 percent／9.2 percent respectively, has been replaced by Asian NIEs which stood at 6.5 percent in 1987 on imports value and 9.24 per cent in 1992 on exports value.

Judging from the above stated analysis we can realize that the weight of the world international trade has been concentrating on East Asia, and Asian NIEs has been playing the pivotal role in generating the substantial weight of East Asia's international trade.

2. The Enlargement in the Scale of Intra-regional Trade in Asian NIEs and ASEAN

Figure 5-A and 5-B illustrate Asian NIEs' exports and imports reliance ratio during the period of 1980-1995 respectively. It is realized from the figures that since middle 1980 the ratios of Asian NIEs' exports and imports reliance to EU-4 (United Kingdom, German, France, and Italy) and U.S. has been declining annually. While they have been seeing the rise in East Asian region, particularly in the regions of Asian NIEs

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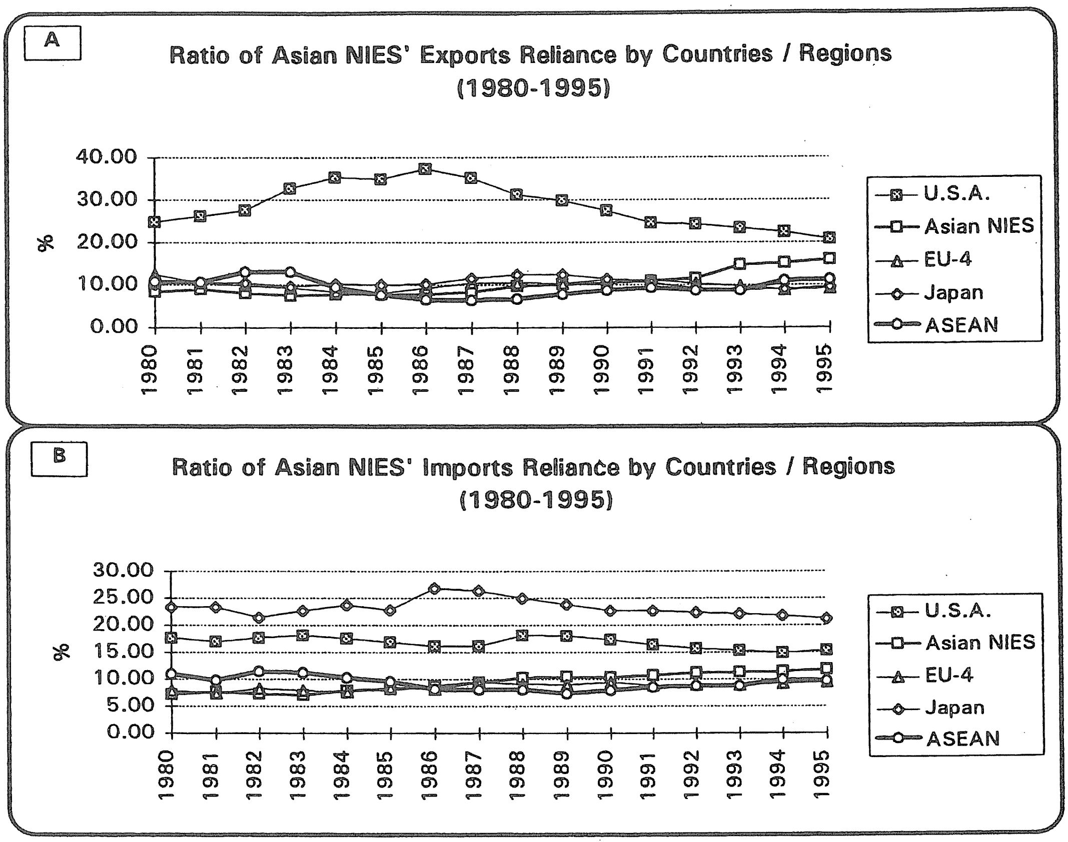
economies got trapped because of their persistent indulgence in import substitution.

Figure 5. Ratios of Asian NIEs' Exports and Imports Reliance by Countries and Regions



Note: EU-4 refers to United Kingdom, Germany, France, and Italy. Source: Based on the data of Investigation Bureau, Economic Planning Agency, Data of Overseas Economy, July 1994/ January 1997.

and ASEAN. The phenomenon could be attributed to 3 mixed issues[8]; namely,

(1) Japanese enterprises' 2nd Wave Foreign direct investment in Asian NIEs and ASEAN after 1985's Plaza Accord.

(2) Asian NIEs' (mainly Taiwan and Korea) foreign direct investment in ASEAN and China after 1988.

(3) The drastic appreciation of Japanese Yen during 1991-1995.

As has been already mentioned, "Plaza Accord of 1985" had triggered the readjustment of the value of international currencies against U.S. dollar. Under the trend, Japanese Yen was inevitably forced to appreciate against U.S. dollar drastically, then accelerating the second wave of Japanese enterprises' foreign direct investment (FDI) and overseas production in Asia NIEs (mainly Taiwan, Korea), and ASEAN4 since late 1985. Triggered by the move, Japanese enterprises have been exporting the parts and plant equipment from Japan, and with local supply of raw material in Asian NIEs and ASEAN, together, to make semi-products or complete sets for exports; the former supplies the neighboring affiliated plants located in the inter-region, while the latter is for direct export to Japan[9], U.S. and Europe and etc.. What's more, the governments in Asian NIEs and ASEAN also successfully adopted the "export-oriented industrialization policy" instead of "import substitution industrialization policy" which, combined with the Japanese enterprises' direct investments in East Asia, greatly altered the structure of international trade in East Asia both intra-regionally and extra-regionally.

The ever increasing imports reliance ratio of Asian NIEs on Japan from 22.8 percent in 1985 to 26.9 percent in 1995 can be construed as the result of exports of plant equipment, parts and etc. accompanied by Japanese enterprises' overseas productions in Asian NIEs. On the other hand, in order to export the complete sets back to Japan from Asian NIEs, the exports reliance ratio of Asian NIEs rose from 10.2 per cent in 1986 to 12.5 per cent in 1989. However, due to the labor shortage, which triggered the increase in labor cost since 1988, the international competition in exports price declined. To that

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[8] See Mariner Wang (1997), The Rise of International Trade and Global Logistics in East Asia: A Case Study Emphasizing Asian NIEs, *Study of Shipping Economy*, No.31, Japan Society of Shipping Economy, for more details.

[9] Japanese NVOCCs (Non-Vessel Operating Common Carriers) also play critical role in transporting the cargoes in inter-Asian region. See Mariner Wang (1999), The Rise of Global Logistics and the Management Strategies of Japanese Logistics Corporations in East Asia, *The Bulletin of Japan Maritime Research Institute*, No.398, pp.17-42.

end, many Japanese, Asian NIEs (mainly Taiwan, Korea), enterprises could not help but shift their production lines to ASEAN or China. Under the move, the exports reliance of Asian NIEs on ASEAN rose from 6.7 percent in 1988 to 7.8 percent in 1989 (see figure 5A) showing annual increase since by reaching to 11.2 percent in 1995. In contrast, due to the increase in the exports of raw material and semi-products from ASEAN to Asian NIEs triggered by the progress in vertical and horizontal division of labor in East Asia,, the imports reliance of Asian NIEs on ASEAN increased conspicuously since 1990, soaring to 9.6 percent in 1995 (see figure 5B). Being affected by the dynamism, Asian NIEs' imports and exports imports reliance ratio on Japan showed annual decline since 1987 and 1990 dropping to 21.1 percent and 9.5 percent in 1995 respectively.

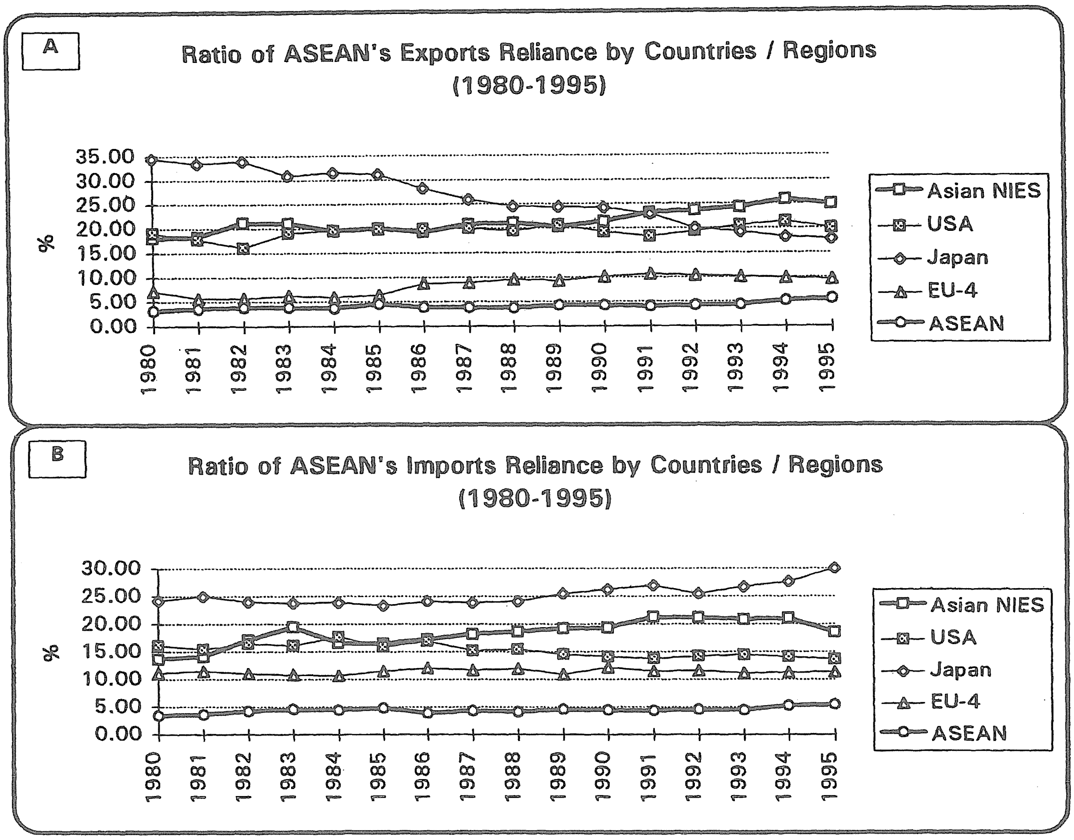
From second half year of 1980s, with a view to firmly securing the supply of raw material as well as semi-products from overseas bases to make complete set for exports, Japanese enterprises began to shift their production lines to ASEAN. Influenced by the trend , the ratio of exports reliance of ASEAN to Japan has been shown annual drop from 34.5 percent in 1980 to 17.8 percent in 1995 (see figure4A). However, in contrast, the exports reliance ratio of ASEAN on the same region and Asian NIEs showed the trend of increase (except the drop on Asian NIEs in 1989) [see figure 6A] while directly supplying the raw material or semi-products to those plants located at same region or Asian NIEs. On the other hand, Japanese or Asian NIEs enterprises' positive production shift into ASEAN also showed ASEAN's annual increase in imports reliance ratio on Japan and Asian NIEs after Plaza Accord. In 1994 it showed 21 percent on Asian NIEs, and in 1995 it showed 30 percent on Japan (see figure 6B).

It is realized from the demonstrated facts as stated above that owing to the shift of Asian NIEs' industrial policy from import substitution to export-oriented industrialization, the scale in international trade in Asian NIEs has enlarged not only regionally, but the whole East Asia. It relates closely to the conspicuous rise of global logistics in East Asia.

IV. Conclusion

The Asian countries, in recent year, are considered to be the major forerunners towards the 21st century due to their high real GDP growth rate generating most from

Figure 6. Ratios of ASEAN Exports and Imports Reliance by Countries and Regions



Note: EU-4 refers to United Kingdom, Germany, France, and Italy.

Source: Based on the data of Investigation Bureau, Economic Planning Agency, Overseas Economy Data, July 1994/January 1997.

their exports. However, since middle 1997, Asian countries have been facing the financial crisis besides the long existing environment and social problems. The financial crisis originating from the Thai baht devaluation on July 1997 is particularly unnerving because of its scope and severity.[10] It plunged several of the world's fastest-growing economies into a severe recession, slowed world growth and highlighted dangerous weakness in international financial markets. According to the 1998 World Economic and Social Survey, the world growth fell to 2.5 percent in 1998 after two straight years of better-than 3 percent growth. Developing countries have been hardest hit, with growth not expected to exceed 3 percent after an average of 5 percent or better growth in 5 of the last 6 years. Industrialized economies are projected to grow by an average 2.25 percent down from a decade-high 2.7 percent in 1997.

There are five major elements contributing to the phenomenal economic development of East Asia:[11]

(1) Most businesses are family owned and in accordance with Confucian trading the families wanted to retain control. If they issued shares to the public, they were inclined to disregard the rights of minority shareholders. To the extent that they could not finance their growth out of earnings, they preferred to relay on credit rather than risk losing control. At the same time, government officials used bank credit as a tool of industrial policy; they also used it to reward their family and friends. There was an incestuous relationship between business and government of which this way only one expression. The combination of these factors resulted in very high debt to equity ratios and a financial sector that was neither transparent nor sound.[12]

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[10] The successively drastic falls of currency rates, for along time pegged to the U.S. dollar, in several countries of Southeast and East Asia. There were reasons related to macroeconomics, in particular, export performance, collapse of bubble economies, excessive production and inventories, and short-term capital movements, including speculation. Those factors are more or less different from country to country. However, through the struggle of defending the currency rate, most of these countries became heavily indebted and were obliged to adopt tightening policies.

[11] Puala K. Chow & Gregory C. Chow, ed., (1997), Asia in the Twenty-First Century, World Scientific Publishing Co. Pte. Ltd., pp.11-12.

[12] Taking South Korean conglomerates—Chaebol group for instance. The Chaebol were highly leveraged, the average debt to equity ratio of the thirty largest Chaebol (indirectly accounting for about 45 percent of Korea's industrial production) was 388 percent in 1996, with individual Chaebol going up to 600 top 700 percent. By the end of March 1998, the average had risen to 593 percent. The owners used their control to

(2) In the process of realization of the national aspiration, public and private business sector successfully maintained an efficiently cooperative division of labor and set up an export-oriented industrial structure. With few exceptions, East Asian governments demonstrated enlightened leadership with a right set of policy objectives. At the same time, there was a market-oriented private sector dynamism with abundant innovative entrepreneurship. What's more, both public and private sectors did not confront each other, rather, they supported each other.

(3) Most East Asian countries enjoyed a high savings ratio, which enabled vigorous accumulation of domestic capital. Besides, labor ethics in general were sound, which generated high productivity.

(4) East Asia could enjoy favorable external support. In the first place, the U.S. provided a vast open market for the East Asian exports. It was also the U.S. which guaranteed the security of the region. Besides, Japan played a crucial role in stimulating East Asian economic development by supplying capital, technology and managerial know-how since the 1980's.

(5) In older days, most of the foreign capital inflow into East Asian countries was from the U.S. and Europe, however, Japanese investment became important later. A significant change took place during the last 10 years in this respect as well. Intra-regional investment among East Asia countries increased prominently. The greatest contributor to the enhanced intra-regional capital flow was from overseas Chinese. Today overseas Chinese capital from Hong Kong, Taiwan, Singapore, Malaysia, Indonesia and etc. is pouring into Mainland China and other East Asian countries. In 1994, of the total direct investment made in East Asian countries came from the region.

In short, the common ingredient being shared by all Asian countries in making Asia different from other regions in the world is the aspiration toward development, hardworking ideology, as well as the spirit of cooperation rather than confrontation. The most important factor heightening the outside world's interest in East Asia was the desire to participate in the fast growing East Asian market.

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cross-guarantee the debt of other members of the group, thereby violating the rights of minority shareholders. See George Soros (1998), The Crisis of Global Capitalism: Open Society Endangered, *Public Affairs*, pp.138-140, for more details.

V. The Existing Problems in Asia

The phenomenal development of Asia undoubtedly may sound almost euphoric about the future development of the Asian economy. However, there are still many risks in store for the future of Asia, namely,

(1) Heavy reliance on foreign capital, technology, and management: The phenomenal development of the Asian economy so far has been very much dependent upon the inflow of foreign capital, technology, and management which were successfully combined with the abundant supply of inexpensive labor in the host countries. As long as the supply of these resources is available, the Asian economy will continue to grow at a reasonably high rate. However, it is quite likely that sooner or later the supply will taper off. In order to expedite the economic growth on a self-sustained basis, it will be vitally important for the region to develop the indigenous technology aiming at producing competitive commodities to secure the foreign market.

(2) Putting more weight on Foreign Direct investment (FDI): FDI has been by far the most important form of foreign capital inflow in Asia. During the period 1990-1994 the share of direct investment was 45% of the total capital inflow to Asia while the comparable number for Latin America was 30%, and for all developing countries 37%. Indeed, direct investment is a favorable type of capital inflow because it is a kind of non-debt capital flow, and also is accompanied by technological transfer in most cases. When it is export-oriented investment, it contributes to the strengthening of the most host country's foreign currency earning capacity in a relatively short span of time. However, direct investment has its own risk. It should also be noted that, in many countries in the region, local private banks are not functioning effectively in mobilizing and channeling stable long-term capital in the domestic market.

(3) Infrastructure shortage: Infrastructure is an umbrella term for many activities referred to as "social overhead capital". Economic infrastructure—including transport (say, highway railway, airport sea port), electric power, telecommunications, water, sanitation, and waste disposal — produces services that are vital to country's development. infrastructure can deliver major benefits in economic growth, poverty alleviation, and environmental sustainability—but only when it provides services that respond to effective demand and does so efficiently. Service is the goal and the measure

of development in infrastructure. In nowadays, major investments have been made in infrastructure stocks, but in too many developing countries in Asia theses assets are not generating the quality or the quality of services.

(4) Political and social instabilities: Asian Financial and environmental crisis are related to market failure, however, the existing political and social instabilities are deeply related to the failure in state dirigisme. The Asian countries have often pursued economic growth under centralized and development-oriented dictatorships of politicians and the military in association with bureaucrats and the business communities. This state dirigisme has shown a lack of flexibility in reacting to the globalization world, as was shown in the cases of Japan and South Korea. In some countries, like Indonesia and the Philippines before 1986, state dirigisme provided the basis for crony capitalism, and the flourish of family-clan business, despite the poverty of the general public.

(5) Environmental deterioration: In Asia, export-led economic growth and the profit-oriented market economy have deteriorated the environment surrounding us. Damage to the environment mounts, and the frequency of local environment disasters increases, such as deforestation, slash-and-burn farming, air pollution, hazardous waste, global warming, all are great risks for Asia. [13]

(6) Diverse economic growth rate & uneven distribution of Income: Popular perceptions mask the diversity in the performance of various sub-regions and individual countries in Asia. The Asian growth experience across sub-regions is heterogeneous (unbalanced). The aggregate growth rate of the region as a whole is pulled up by the exceptional growth performance of the new industrializing economies (NIEs) and China. In the 1990's, Southeast Asian economies have also succeeded in accelerating their

[13] Taking air pollution for instance, in Delhi, India, the air is so heavy with smoke. According to a 1995 World Bank study, Delhi accounts for 7,500 of the more than 40,000 Indians who die prematurely each year due to air pollution in cities. These death (and chronic illness which affect more than 250 million people) cost the country up to $1.6 billion in economic losses each year. The main culprit behind Delhi's darkening skies is traffic. The domestically made cars that ply Delhi's roads have poorly designed engines that run on low quality fuel, producing a particularly noxious exhaust in the air like Dudu car in Bangkok. As the economic infrastructure is poorly equipped, say, with no decent mass-transit system in the city like subway in Japan, and MRT (Mass Rapid Transport) in Hong Kong and Singapore, most experts believe the pollution is likely to get much worse.

growth rates, bringing them close to the region's average. However, while all NIEs have maintained high growth rates, some Southeast Asian countries such as the Philippines and others have not done well. Performance of the South Asia sub-region has also been consistently below average for the Asian region. And even in China, the uneven rates of growth in coastal and interior provinces is quite conspicuous. Nevertheless, per capita income of the South Asian also has grown at a sluggish pace. Differences within the Asian region become even more apparent when levels of per capita income are examined. According to 1993 estimates, while the NIEs had per capita income of around $8,000 or more, the PRC, despite rapid growth of per capita income since the early 1980, had a per capita income of about $500. Similarly, there is considerable diversity in per capita income among East Asian countries. In this sub-region, four countries have meager per capita incomes: Cambodia, Laos, Mongolia, and Vietnam. Low per capita incomes are also the norm in South Asia.

VI. The Pending Issues of East Asia Heading Toward the 21st Century

Most people might wonder whether the 21st century is coming to be the century of Asia countries. The answer lays on whether the governments in Asia countries bear the service-oriented ideology, solid resolution in pursuit of the betterment for Asia's tomorrow. Undoubtedly, The Asian recovery will not be easy. But, neither is impossible, because the crisis reflects the weakness and collapse of the old regime, which had guided the catch-up process to the occidental hegemony. There is new forces representing democracy, human rights and people's participation in the decision-making process, which are keen to failures in both the market and government sectors urging the necessary socioeconomic reforms.

With a view to pursuing a prosperous and sustainable development toward 21st century, basically, the following 3 issues should be imperatively imposed on Asia.

1. Political and social reforms

Political and social stability are crucial factors for successful economic development, they have become the order of today's Asia. The recent fall of the Suharto regime in Indonesia is just one of the examples in which the public, with enough information about human rights, democracy and freedom, no longer was silent toward an unjust and dictatorial regime which had monopolized the fruits of economic growth. The middle class, which has grown through the industrialization of recent decades, has become the initiator of democracy and reforms in these countries.

2. Effective control of population, increasing agriculture productivity, as well as preventing environmental deterioration

Rapid population growth, agricultural stagnation, and environmental degradation are closely interrelated and mutually reinforcing. Agricultural stagnation and environmental degradation also affect population growth. High infant and child mortality rates caused by food shortage and malnutrition induce men and women to have more children, partly to ensure that some survive to support them in old age. To break this vicious circle, policies are urgently needed to control population; increase agriculture productivity without damaging the environment; and reduce malnutrition, poverty, and infant, child mortality.

3. Effective introduction of economic infrastructure

The availability of infrastructure has increased significantly in developing countries over recent decades. However, the performance is often poor, inadequate maintenance leads to premature deterioration of facilities, and services frequently do not match users' needs and willingness to pay. So it is vitally important that the potential for infrastructure services to contribute to poverty reduction and to environmental improvement. Well-established economic infrastructure is indispensable and can not be slightly neglected.

With a view to achieving a balanced and sustainable economic development toward 21st century, Asia is now facing with a historic challenge. It goes without saying that export-led and profit-oriented market economies are the stimuli for the prosperity of Asia in heading for 21st century. However, it should be noted that the vicious cycle behind the reverse side of Asia's seemingly euphoric economic growth could greatly jeopardize its economic growth if Asian countries are completely absorbed in pursuing the economic growth and totally overlooking the possible happenings which are in store for them. Euphoria over the success of the Asian Four Tigers and the exhilarating pace of the commercial marketplace in Hong Kong, Singapore and other capitals will certainly obscure our vision of the broader realities within the region.

Above all, if the dynamism of Asian economic growth is concentrated on quantitative physical development then the outcome can be irrecoverable destruction of the environment. This is the last thing that Asia should not ignore.