COUNTERPOINT

Emerging Economic and Social Realities in East Asia: Some Implications for Australian Business and Public Policy

by
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1. The Rise of the Newly Industrialising Economies (NIEs)

After the Second World War ended in 1945, the General Agreement on Tariffs and Trade (GATT) was established to create an open and free trading system. Together with the system of fixed currency exchange established under the IMF agreement at Bretton Woods, a stable global trading and monetary system was instituted. These two key postwar institutions, sustained by the hegemonic power of the U.S.A., based on her technological, economic and military superiority, ushered in an unprecedented period of steady expansion in world trade and closer economic interdependence in the non-communist free world. World trade in volume terms expanded at an average annual rate of 5.6% between 1953–63 and 8.5% between 1963–73, much higher than the average rate of 3.5% between 1873–1913 and the 0.9% in the interwar period of 1913–39.

This unprecedented expansion in world trade and output in the post war era provided the Asia Pacific economies like Japan and the four NIEs (Korea, Taiwan, Hong Kong and Singapore) a conducive and stable environment for growth. During the past two-and-a-half decades, the four East Asian Newly Industrialising Economies (NIEs) have become the most dynamic middle-income economies in the world. Their annual growth rates in GNP per capita since the mid-1960s have averaged 6–8%, almost triple the average rate of 2.3% for middle-income economies and double the 3.6% average for ASEAN (excluding Singapore). By 1990, their GDP per capita have reached US$5,000–11,000, compared to US$500–2,000 of the ASEAN countries and US$12,000–14,000 in Australasia (see Table 1).

These highly dynamic economies have adopted a similar outward oriented development strategy that emphasised the promotion of export-oriented manufacturing industries since the early to mid-1960s. They also encouraged direct foreign investment (DFI) in their efforts to promote industrialisation and economic growth (Galenson 1985). Their export of manufacturing products has grown at the annual rate of 23.8%, about twice the rate of the industrial economies since 1965 (see Table 2).

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Table 1

GNP per Capita in East Asia and Australasia

	Average Annual Growth Rate (1965–89)	GNP per Capita Level (1989) (US$)
Korea	7.0	4,400
Hong Kong	6.3	10,350
Taiwan	7.5	7,510
Singapore	7.0	10,450
Indonesia	4.4	500
Philippines	1.6	710
Thailand	4.2	1,220
Malaysia	4.0	2,160
China	5.7	350
Middle-Income Economies	2.3	2,040
Japan	4.3	23,810
Australia	1.7	14,360
New Zealand	0.8	12,070

Source: World Bank, World Development Report, 1991.

The pattern of industrialisation and exports of the NIEs has been similar. After a short period of protectionistic import substitution policy in the 1950s and early 1960s, they adopted an export-oriented strategy for growth. During the early stage of the outward oriented development strategy in the 1960s, the emphasis was on the production and exports of traditional labour intensive products such as textiles, clothing, footwear, toys, leather goods and other light manufactures. Technology for these products were standard and the main competitive factor in the world market was low labour cost relative to labour productivity. Their major markets were the OECD countries, particularly the U.S.A. which has a major interest in nurturing these market economies through generous foreign aid, capital inflow, technology transfer, market access and special tariff preferences against the socialist countries of East Asia like China, North Korea and North Vietnam. Gradually, with rising income and savings, together with a higher educational level, the NIEs were able to invest in and upgrade to more capital, skill and technology intensive industries like steel, shipbuilding, electrical machinery,

Table 2

Growth Rates of Manufacturing Exports in NIEs
and Industrial Economies

	1965–73	1973–87	1965–87
Hong Kong	20.5	13.0	15.7
Korea	49.8	21.4	31.7
Singapore	23.1	18.2	20.0
Taiwan	44.7	18.3	27.9
Industrial Economies	15.9	10.4	12.4

Source: OECD, 1988.

Table 3

Export Structure of NIEs
(Percentage Shares)

Country	Natural Resource Intensive		Unskilled Labour Intensive		Physical & Human Capital Intensive	
	1970	1987	1970	1987	1970	1987
Hong Kong	4.2	2.9	76.2	51.7	19.6	45.4
Korea	34.9	10.5	52.8	39.0	12.3	50.4
Singapore	72.6	27.6	8.2	17.5	19.2	54.9
Taiwan	26.3	11.6	54.3	42.8	19.4	45.5

Sources: Singapore Trade Statistics, 1987; Monthly Statistics of Trade, Taiwan, 1987; Hong Kong Trade Statistics, 1987; Statistical Yearbook of Foreign Trade, Korea, 1987; Krause, 1987.

Table 4

Japan's Top 10 Exports

1950	1955	1960	1965	1970
Cotton textiles 24.9	Steel 12.9	Steel 9.6	Steel 15.3	Steel 14.7
Steel 8.7	Cotton textiles 11.4	Cotton textiles 8.7	Ships 8.8	Ships 7.3
Rayon fabrics 4.6	Apparel 5.3	Ships 7.1	Cotton textiles 3.6	Automobiles 6.9
Copper 4.3	Staple fabrics 4.1	Apparel 5.4	Apparel 3.4	Transistor radios 3.6
Ships 3.2	Ships 3.9	Transistor radios 3.6	Automobiles 2.8	Synthetic fibre & fabrics 3.2
Apparel 2.8	Marine products 3.8	Staple fabrics 2.9	Marine products 2.7	Optical instruments 2.6
Silk fabric 2.7	Rayon fabric 3.0	Toys 2.2	Transistor radios 2.6	Apparel 2.4
Toys 1.4	Toys 2.1	Automobiles 1.9	Synthetic fibre & fabrics 2.2	Tape recorders 2.3
Staple fabrics 1.3	Ceramics 2.1	Footwear 1.8	Optical instruments 2.1	Plastics 2.2
Textile machinery 1.2	Chemical fertilisers 2.1	Ceramics 1.7	Toys 1.2	TV sets 2.0
Total share of top 10 exports 55.2	50.7	44.8	44.6	47.2

Note: Figures indicate the share of each export item in the total value of Japanese exports.

Source: Japanese Ministry of International Trade and Industry, 1971 White Paper on International Trade.

telecommunication and office automation equipment. As indicated in Table 3, the composition of exports of the NIEs have shifted from natural-resource based and unskilled labour-intensive type to physical and human capital intensive products. As at 1987, about half of their exports consisted of physical and human-capital intensive products, as compared to less than 20% in 1970.[1]

This structural shift in the composition of exports of the NIEs is not a unique phenomenon. A close examination of the evolving structure of exports of Japan since 1950 shows that Japan has undergone some process of industrial upgrading. As indicated in Table 4, Japan has also moved from an exporter of labour intensive manufactured products like cotton textile, fabric, apparel and toys in the 1950s to physical capital and human capital intensive manufactured products like steel, ships, automobiles and optical instruments in the 1960s.

Consequently, over the past two decades, the market share of the NIEs in manufactured imports of the OECD countries have risen substantially, from 1.3% in 1964 to 7.5% in 1985 (see Table 5).

Table 5

OECD Import of Manufactured Products

Market Share (%)

From	1964	1973	1979	1985
Hong Kong	1.1	1.4	1.6	1.8
Korea	0.1	0.9	1.6	2.1
Singapore	0.0	0.3	0.5	0.7
Taiwan	0.1	1.2	1.7	2.9
Total	1.3	3.8	5.4	7.5

Source: OECD, 1988, Table A.2.1.

More significantly, for specific product groups, like textile, clothing, leather goods and footwear, the import penetration ratios (i.e., the share of domestic consumption accounted for by imports from the NIEs) have reached 10–20% for most of the OECD countries. Even in more technology and skill intensive products, like

1. The classification of products into natural-resource intensive, unskilled labour intensive, physical and human capital intensive, followed that of Krause (1987).

electrical machines, appliances and communication equipment, import penetration ratios for most OECD countries have reached 5–10%.

Thus, with the benefits of late comers in the process of industrialisation and taking full advantage of the conducive world trading system and the ideological imperatives of the free world, the NIEs have been able to telescope an industrialisation process that took the OECD countries 100–150 years to complete in the nineteenth and early twentieth century into 25–30 years in the post war era.

2. NIE's and Japanese Industrial Restructuring and the Transmission of Growth to ASEAN

The successful process of export-oriented industrialisation of the NIEs, like the case of Japan in the early 1970s, has eventually created the necessity of structural adjustment. Since the early 1980s and gathering more speed from 1985, the NIEs have experienced enormous pressure, both externally and internally, for industrial restructuring.

External pressure came largely from the OECD countries, particularly the U.S.A., which have been absorbing a rising share of the NIEs' labour intensive products and increasingly physical and human capital intensive products. As at 1990, all the NIEs were heavily dependent on the North American and European markets for exports. Despite the high Yen and the alleged increase in exports of the NIEs to Japan, the North American and European markets continued to account for 50–60% of the NIEs' exports.

The heavy dependence on these two markets made the NIEs highly vulnerable to trade protectionistic pressure, particularly since they, that is, Korea and Taiwan, have all along been protectionistic themselves.

As a result of these external pressures, Korea and Taiwan have liberalised their trading regime since the mid-1980s. Tariffs have been reduced successively and import of commodities, including some agriculture products, has been gradually liberalised. More significantly, the exchange rates of the Won and the NT dollar have been upvalued substantially, particularly against the U.S. dollar. From the first quarter of 1985 to the last quarter of 1989, the Won appreciated by 25% against the U.S. dollar while the NT dollar appreciated by an even larger 50%. Meanwhile, the exchange rates of the ASEAN countries like the Malaysian Ringgit, the Indonesian Rupiah and the Thai Baht have broadly depreciated against the U.S. dollar during this period (see Figure 1). This significant relative strengthening of the exchange rates was an important driving force towards industrial restructuring of the NIEs, for it reduced the profitability and international cost competitiveness of their industries, particularly for the export-oriented labour-intensive products. It was a key factor in making the ASEAN countries attractive destinations to these outflow of foreign direct investments from the NIEs. Similarly, the same industrial restructuring process occurred in Japan after the upvaluation of the Japanese Yen since the Plaza agreement in September 1985, again substantially to the benefit of the ASEAN countries.

Figure 1

Movements of Asian Currencies Against the US$

(1985 = 100)

The NIEs also face significant pressure for industrial restructuring from their own domestic economies. The most significant *domestic pressure* for industrial restructuring came from the demand of workers for rising wages. As the NIEs prospered on the back of exporting manufactured products, the prosperity, particularly in Korea and to a lesser extent in Taiwan, has not been widely shared. The international competitiveness of NIEs' products came largely from low wages relative to labour productivity, long working hours and weak exchange rates. This not only resulted in strong export competitiveness but also high profitability, benefiting capital. While the high returns to capital encouraged further investment and output expansion, the returns to labour continued to be low. The situation was partly sustained by the memory of earlier experience of adversity, high growth and an authoritarian government.

Higher level of development and greater awareness of living standard and working conditions for labour in industrialised countries gradually led to higher expectation and greater eagerness to share in the fruits of prosperity. Consequently, one witnessed an explosion of labour demands in the NIEs, particularly in Taiwan after the lifting of martial law in July 1987 and in Korea. Labour agitation has been particularly strong in relatively labour intensive industries like shipyard in Korea, where aggressive anti-union policies and harsh working conditions were common in the past. In Taiwan, strikes and labour protests have proliferated in industries as diverse as textile, plastic, public utilities, transport, car and food products.

A major consequence of these labour demands is that wage increases and bonuses have risen substantially since 1985. For the manufacturing sector as a whole, real wages rose by an annual average of 11.7% in Taiwan and 14.4% in Korea between 1986–89, more than double the rate of increase between 1980–85 in the case of Taiwan and almost quadruple in the case of Korea (see Table 6).

Table 6

Annual Real Wage Increase (%) in the Manufacturing Sector

	1980–85	1986	1987	1988	1989
Korea	3.8	6.2	8.4	12.5	30.4
Taiwan	5.0	9.3	9.1	12.7	15.8
Hong Kong	0.2	3.3	3.6	0.9	1.7

Source: Statistical Yearbook of Individual Countries.

The high wage increase coupled with the strong exchange rates resulted in a significant decline in international export competitiveness, a fall in profitability, and pressure for industrial restructuring, either in relocation to lower cost countries or automation and upgrading to more capital and technology intensive industries.

Coincidentally, the outflow of direct foreign investments from the NIEs have also come at a time when the ASEAN countries, particularly Thailand, Malaysia and Indonesia, have begun to learn and absorb the lessons of the NIEs' success of the outward oriented development strategy and were keen to liberalise and deregulate their economies to welcome the inflow of foreign capitals and technology. The demonstration effect of successful industrial and trade policies in neighbouring countries is a major reason why growth and dynamism has been across the whole region rather than in isolated countries.

These economic and financial liberalisation policies are aimed at directing economies towards a system of regulation based on the competitive markets of the private sector. The basic paradigm is the preëminence of competition, whether domestic or international. The key areas of liberalisation are international trade in goods and services, including tariff, quota and licencing structure; internal and external capital movement, including the abandonment of financial repression; competitive goods and factors markets, including the repression of domestic rent seekers, the elimination of subsidies and revision of the foreign investment regulations.

Specifically, on the liberalisation of foreign trade, the Special Action Committee on Incentives in Malaysia helped to clarify and harmonise tariff protection. There was a reduction of customs duty for agricultural products, intermediate goods and capital goods. In addition, licencing requirements have been substantially reduced particularly for imports used by export oriented producers. An across-the-board reduction in nominal tariffs was implemented in March 1985. In May 1986, measures to provide internationally priced imports to exporters were announced. Through a series of measures in October 1986, January and December 1987 and November 1988, import licencing restrictions were reduced. Steps taken in December 1987 reduced the anti-export bias of trade policy by reducing regulatory restrictions for exporters. Non-tariff barriers were replaced with tariffs while the average tariff rate was reduced. As a result, the value of imports subject to controls declined from 43% in mid-1986 to 21% in December 1988, and the proportion of domestic production protected by import licencing restrictions declined from 41% to 29% in the same period. This reform continued in May 1990 when import licencing restrictions on 335 products (extending across cement, fertilisers, synthetic yarn, machinery and electronic products) were removed and tariff rates were lowered from an average of above 60% to below 40%.

Import protection in Thailand has mainly involved the use of tariffs: quantitative restrictions and domestic content requirements have played a relatively small rôle. Broadly, effective rates of protection tend to be higher for finished goods, such as consumer products, textiles, leather products and motor vehicles, as compared with intermediate products, such as chemicals and machinery. The tariff structure was the result of an escalation of tariff rates throughout the 1970s. Tariff reform in Thailand, however, had been slowed by concerns about the impact on government revenues. The most significant tariff reform was in 1982 when the top nominal tariff was reduced to 60%. Since 1985, tariffs on electrical and electronic goods and imports to their production have been reduced. During 1980, duties were also reduced on imports of some food and intermediate supplies and products like steel billets, hides and leather.

For the capital market, inhibition of financial sector development by excessive controls on private financial activity usually results in retarding capital formation, reducing the financial system’s flexibility and increasing the costs of financial intermediation. The recognition of this led to financial deregulation. In the financial sector, deregulation of interest rates was started earlier in Singapore and Malaysia. Deposit and lending rates were deregulated as early as July 1975 in Singapore. In Malaysia, regulations on maximum interest rates on deposits and minimum interest rates on loans of commercial banks were abolished in October 1978. For the other ASEAN countries, deregulation only gathered momentum in 1980s. In Indonesia, State National Commercial banks' deposit and lending rates were deregulated in June 1983, while in Philippines, abolition of ceilings on short and long term lending rates were completed in 1983. Thailand started abolishing ceilings on commercial bank time deposit rates of over a year in 1989 and that of less than a year in March 1990.

The interest rate deregulation introduced in Indonesia in June 1983 has resulted in loan and deposit interest reflecting competitive forces in the market and has allowed real interest rates to become positive. This has helped the government to finance its operations by tapping private savings in the financial sector. In October 1988, more extensive reforms were introduced, designed to instill the principles of free competition and thereby heighten the efficiency of financial activities. These included the lifting of policies protecting state run banks, easing of restrictions on foreign banks, making it possible for them to enter Indonesia's market through joint venture arrangements and set up new branches. Policies permitting the creation of new private banking ventures were also introduced.

In Thailand, aside from the deregulation of interest rates in 1989 and 1990, policy on restrictions on foreign banks was reviewed. In December 1988, the Thai Ministry of Finance announced a policy of permitting the opening of branches by foreign banks which had been banned in principle since 1978. Deregulation in this area, particularly the expertise on financial services of foreign banks, will invigorate the oligopolistic structure of the local commercial banking system, fuelling competition and streamlining their operations.

In Malaysia, regulations governing foreign direct investment have been eased. Under the Industrial Master Plan 1986–90, which called for an outward oriented industrialisation strategy, the private sector was envisaged to play an increasing rôle in development. The administratively cumbersome Investment Incentives Act was replaced in 1986 by the Promotion of Investment Act, which also provided additional tax incentives. Foreign investment was greatly encouraged through the easing of ownership rules and the establishment, in October 1988, of a Coördination Centre on Investment at MIDA as a one-stop agency for foreign investors. In 1988, foreign holdings can attain 100% of the equity capital of an enterprise if exporting at least 80% of its output or if in the tourism sector. In Indonesia, the list of industries from which foreign investors were barred was greatly simplified. Through a series of steps between May 1986 and December 1987, the investment approval process was streamlined, licencing requirements were reduced, the bias against foreign investment was curtailed and the rôle of the local content was reduced. In May 1989, the Government converted the Investment Priority list to a short negative list, greatly increasing the transparency of the system. In addition, reforms in the area of customs, ports and maritime transport implemented since 1985 resulted in a significant cut in procedural time and a substantial reduction in business costs. Equity rules of foreign investors in export oriented manufacturing were relaxed and foreigners were allowed to buy up to 20% of shares in domestic companies. Local content regulations were also relaxed. Foreign firms setting up in Batam were allowed 100% equity in export oriented industries, resulting in an explosion in investment interest from Singapore based MNCs and Singapore firms.

These economic liberalisation measures in ASEAN were somewhat similar to those carried out extensively in Korea and Taiwan between 1960–65, when they shifted from an import substitution to an export promotion strategy of industrialisation before their subsequent industrial takeoff.[2] As the return to private sector mechanisms begin to work, such deregulatory policies further convince ASEAN governments to relax and reform policies which bring in more export oriented foreign investments and stimulate the domestic private sector, reinforcing a virtuous cycle of liberalisation and growth.

Thus, since the mid-1980s, the outflows of foreign direct investment from Japan and the NIEs to ASEAN have been very rapid. By 1990, the major foreign investors in the ASEAN countries like Malaysia, Indonesia and Thailand are Taiwan, Japan, Korea, Hong Kong and Singapore, displacing the U.S.A. and Europe (see Table 7). While noting the usual caveats on comparability of data from different country sources, Table 7 shows that Hong Kong is the largest investor in Thailand, accounting for 29.0% of the world total, followed by Japan, 26.7%. In the Philippines, Japan accounted for 37.5% of total investment, followed by Hong Kong, 21.6%. In Malaysia, the largest investor in 1990 is Taiwan (37.8%), followed by Japan (28.5%); while in Indonesia, Japan (25.7%) is the largest investor, followed by Hong Kong (11.4%). The NIEs as a group constitute the largest investors in all the four ASEAN countries. In all these four ASEAN countries, investments by the NIEs accounted for the lion's share, being 44.7% in Thailand, 40.0% in the Philippines, 47.8% in Malaysia and 29.3% in Indonesia.

This surge of foreign investment inflows from Northeast Asia into ASEAN, together with the dynamic effect of the liberalising and deregulatory measures undertaken domestically, have resulted in an ASEAN economic boom between 1987–91. The average annual real GDP growth during this period were 8.9% for Singapore, 10.5% for Thailand, 8.2% for Malaysia, 6.4% for Indonesia and 4.2% for Philippines compared to 5.5%, 5.4%, 4.5%, 4.9% and –0.2% respectively

2. See Galenson, W., 1985, pp.50–53, 94–101, 147–152, 177–179.

Table 7

Percentage Distribution of Investments in ASEAN, 1990

From	To			
	Thailand	Philippines	Malaysia	Indonesia
Asia	75.6	75.9	85.1	56.8
Japan	26.7	37.5	28.5	25.7
NIEs	44.7	40.0	47.8	29.3
Hong Kong	29.0	21.6	2.2	11.4
South Korea	3.1	2.2	2.6	8.3
Singapore	4.6	1.5	5.2	2.5
Taiwan	10.4	14.7	37.8	7.1
Europe	7.4	4.7	8.3	13.5
U.S.A.	6.5	6.2	3.0	1.8
World Total	100.0	100.0	100.0	100.0

Source: Merrill Lynch & Co., Asian Economic Commentary, March 1991.

during the period 1981–86 (see Table 8).

3. Demonstration Effect on Economic Reforms in China

When the reformist group under Deng Xiaoping consolidated their power in late 1978, they reached a new model of economic development to launch China's ambitious plan for economic modernisation. The proven success of Singapore, Hong Kong, Taiwan and Korea in utilising direct foreign investment in industrialisation and export oriented development policy had a significant demonstration effect on the final adoption of the policy for the Special Economic Zones and opening to the outside world. This was partly due to the personal experience of the top leaders during their visits to these countries, particularly Singapore and Hong Kong. For example, in an exclusive interview in 1990, Chinese Communist Party Secretary General Jiang Zemin disclosed that he was deeply impressed by Singapore's Jurong Industrial Estate when he visited it in 1980 on a United Nation invitation trip to study industrial development in various countries as models for China's development.[3] Zhao Ziyang, in his visit to

Table 8

Growth Rate of GDP in ASEAN

	Singapore	Malaysia	Thailand	Indonesia	Philippines
1981	9.6	6.9	6.3	7.9	3.9
1982	6.9	5.9	4.1	2.2	2.9
1983	8.2	6.3	7.3	4.2	0.9
1984	8.3	7.8	7.1	6.7	–6.0
1985	–1.6	–1.0	3.5	2.5	–4.3
1986	1.8	1.2	4.5	5.9	1.4
1987	9.4	5.2	9.5	4.9	4.7
1988	11.1	8.9	13.2	5.7	6.3
1989	9.2	8.8	12.0	7.4	5.6
1990	8.3	9.4	10.0	7.0	2.5
1991	6.5	8.6	8.0	7.0	2.0

Source: Asian Development Outlook, 1991.

Singapore in 1981, was also deeply impressed by Singapore's social and economic development.[4] There was obvious pride and derived confidence in seeing overseas Chinese doing well in Singapore. To further tap Singapore's experience for China's open door policy, Dr. Goh Keng Swee, the former Deputy Prime Minister of Singapore, was appointed the advisor to the Chinese Cabinet on policy for the Special Economic Zones.[5]

The demonstration effect of the development model of Singapore and Hong Kong on the policy for the Special Economic Zones was also indicated in the choice of the site. The four zones, Shenzhen, Zhuhai, Shantou, Xiamen were purposely chosen in areas that are traditionally homelands of millions of Overseas Chinese. The rationale for this was that the initial inflow of direct foreign investments were expected to be from the Overseas Chinese.[6]

3. *Zijing*, Vol. 1, No. 1, September 1990.
4. *Business Times*, Singapore, 20 September 1985.
5. *Business Times*, Singapore, 20 September 1985.
6. Cia Renqun, 1981, A discussion of problems regarding the choice of locations and rationalisation on the scale of development of the special economic zones in China, *Redai Dili*, 1, 54–59.

Even given the high volatility in domestic political circumstances throughout the 1980s, the policy on the Special Economic Zones has been affirmed. The initial success of the zones led to the spread of zone-like policies to fourteen major coastal cities and Hainan Island in 1984. The opening of these large coastal areas market the high point of the open policy. National economic problems and rising inflation in 1985 led to retrenchment, but the momentum of reform resumed in the second half of 1986. By 1988, Zhao Ziyang was confident enough to outline a far-reaching coastal development policy, which would extend liberalisation of international economic contacts beyond the existing open cities and zones to include all of China's coastal territory.[7] This coastal development strategy magnified the national significance of the Special Economic Zones to become model of international economic integration. Their experience with foreign investment, trade, finance, labour management, enterprise structure and management would be of significant experimental value to the whole country.[8]

As the economy experienced retrenchment in late 1988, political commitment slackened and foreign investment slowed again in the Special Economic Zones. The fall of Zhao Ziyang after the June 1989 event further created uncertainty. But as at 1991, the weakening of zone policy did not appear to disrupt the cycle of Special Economic Zone development. Despite the inherent political sensitivity in the zones' mission of radical economic reform and opening, sufficient visible economic achievement has been attained to prevent detractors from mustering enough influence and support to close the zones.[9]

In June 1990, a year after the Tiananmen event, in an indication of the continued relevance of Singapore's development experience to China, reformist Mayor Zhu Rongji of Shanghai, now deputy Premier in the State Council, came to Singapore to study policies on investment promotion, housing and social security, and to promote investments to the Shanghai Special Economic Zone in Pudong. On 10 February 1991, the Shanghai Municipal Government People's Congress passed the resolution on housing reform. The reform was based on Singapore's central provident fund system with employee and employer each contributing 5% of salary towards housing purchase.

The fundamental conflict between economic reform, with its decentralisation implications of a more market oriented economy, and the doctrine of ideology and Leninist party control will continue to be a difficult issue for China and also

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7. *Renmin Ribao*, 23 January 1988, and *Beijing Review*, 8 February 1988.
8. See Chen Yizi, *Shenzhen: Research on New Development Strategy*, report by the Economic Structural Reform Research Institute, a think-tank under the State Council.
9. Since the completion of this paper at the end of 1991, events in China in March 1992 have appeared to move favourably towards the reformist group in the perennial debate on economic reform and ideological control.

Vietnam. Based on the development experience of the NIEs, the eventual model is likely to be an economically somewhat liberal but politically authoritarian one. This combination is not unique. It was not only the pattern for Korea, Taiwan and Singapore during their take-off period between 1965–85, but also not too different from some European countries and Japan's past. Apart from the countries in the Anglo-American tradition, during their own rise to wealth Germany under Bismarck and Japan under the Meiji Emperor were just as authoritarian. Unlike the Soviet and East European model, this is a kind of "perestroika with a postponed but eventual glasnost" rather than "perestroika with immediate glasnost" that is perceived to lead to confusion and instability.

Until 1991 at least, the results in China have been quite remarkable. In the last ten years, China's real growth has averaged 10% per year, higher than the 9.9% of Korea, 8.5% of Taiwan, 7.1% of Hong Kong, 6.5% of Singapore, 7.8% of Thailand, 5.2% of Malaysia and 5.5% of Indonesia. More significantly, the share of the central government and state owned enterprises in the economy has declined steadily against that of the local government, non-state, private and quasi-private sector. In 1978, state owned enterprises accounted for 80% of industrial output, by 1991 it is 50%. Central government share of GNP was 34% in 1978, it has fallen to 20% in 1990. Retail sales under mandatory planning stood at 70% in 1978, by 1987 it was only 30%. While the rhetoric of the central government in Beijing and the propaganda machinery continued to harp on ideology, party doctrine and the four cardinal principles (indicative of the extreme insecurity of the present regime as a result of the recent events in the Soviet Union), the real actions are at the provincial and local governments and enterprises level. Without fanfare, as a Chinese economist remarked, "everybody, army and party people, factory managers, entrepreneurs and workers all want to make money". As long as this is the case, and as rules and regulations will inevitably improve, the future is likely to be an optimistic one.

For China, too many people have watched the world through television, have met tourists and have travelled outside China. They know that they are poor when rich relatives from Hong Kong, Taiwan and Southeast Asia come bearing gifts and money. These messages have penetrated to even some of the more remote villages. The windows to the outside world have been broken. There will, of course, be many policy shifts but the general direction has been set.

As the case of Taiwan under Chiang Kai Shek and Chiang Ching Kuo indicated, China, through fits and starts, will allow substantial economic and business development as long as they pose no overt challenge to the power of the communist party rule and to the unity of China. The Tiananmen Square massacre of June 1989 showed the extent to which the revolutionary leaders would go to preserve their power. But those Long March veterans are the passing generation. The next generation of leaders will not have such a mandate and will have to legitimise its rule by delivering the goods. When the post Long March generation of leadership actually takes over, fundamental economic and eventually political reforms will then take place, perhaps more rapidly than the outside world would think possible.

4. Emerging Economic and Social Trends in East Asia in the 1990s

Taking a longer term historical and a broader Asia Pacific regional perspective, the process of industrial restructuring in the NIEs in the 1980s represents a continuing evolution of the pattern of industrialisation and trade in the Asia Pacific region based on factor proportions. As Japan gradually lost her cost competitiveness in labour-intensive products to the NIEs in the 1960s and 1970s, so do the NIEs to ASEAN and China in the 1980s. Again, like Japan, growth in the dynamic industrial sector based on the exports of labour intensive products generated increased savings in the NIEs. This accumulation of physical capital enabled the economy to upgrade into industrial sectors requiring more capital intensive modes of production. With rising industrial sophistication and higher educational levels, the economy could eventually move into human capital and technology intensive industrial sectors, thus allowing the countries in the next tier of development to increasingly take over the lower end manufactured products.

Thus, this factor proportion model of comparative advantage is useful in understanding the evolving pattern of trade, the changing structure of industrial specialisation, and the complex economic interdependence among the Pacific economies. Japan, with the highest GNP per capita, technology level and capital-labour ratio, exports investment and some intermediate goods to the NIEs, ASEAN, Australasia and China, and imports primary products from Australasia, ASEAN and China and labour-intensive products from the NIEs. The NIEs—at an intermediate stage in GNP per capita, technology, skill level and capital-labour ratio—import investment and some intermediate goods from Japan, Europe and the U.S.A., and primary products from Australasia, ASEAN and China, and export labour intensive products to the U.S.A., Europe and the other Asian countries. Increasingly, they are also exporting physical and human capital intensive products to these markets, in direct competition with Japan. ASEAN and China, more resource abundant and at a lower state of economic development, import capital goods and manufactured products from Japan and the NIEs and export primary products. Increasingly, with industrialisation, they are moving into replacing the NIEs in labour intensive products, particularly in third markets in the industrial countries.

In a way, the pressure by the U.S.A. on the Japanese Yen and the currencies of the NIEs, together with the withdrawal of GSP benefits from the NIEs, actually speeds up this process of the evolution of comparative advantage in Pacific Asia and quickens the pace of industrial restructuring in the NIEs and Japan. They also open up opportunities in industrialisation for ASEAN and China faster than they would otherwise be. This is particularly so for Malaysia and Indonesia, where the collapse of commodity prices between 1982–85 resulted in a greater need to promote labour intensive manufactured exports.

Consequently, trade, investment and economic interdependence have increased significantly among the Asia Pacific economies. While in 1970 trans-Atlantic trade stood at US$32 billion (1.7 times that of the US$19 billion in trans-Pacific trade), by 1988 trans-Pacific trade had reached US$308 billion and become larger than trans-Atlantic trade by 13%. More significantly, intra-western pacific trade (i.e., trade among the western part of the Asia Pacific economies, stretching from Korea down to Australasia) has grown even faster, rising from US$8 billion and representing only 42% of trans-Pacific trade in 1970 to reach US$204 billion or 66% of trans-Pacific trade in 1988 (see Table 9).

Table 9

Trans-Regional Trade (US$ billion)

	1970	1988
(1) Trans Pacific	19	308
(2) Intra Western Pacific	8	204
(3) Trans Atlantic	32	272
(4) (1)/(3)	59%	113%
(5) (2)/(1)	42%	66%

Source: Direction of Trade Statistics, IMF.

Besides trade, movement of people and investment have also spun a web of business network and economic interdependence among the Asia Pacific economies. Taking the definition of Asia Pacific economies as in APEC, i.e., East Asia, North America and Australasia, exports among Asia Pacific economies have risen from 54.4% of their total exports in 1970 to 65.8% in 1988, while imports have also risen from 59.2% to 65.7% during the same period. This level of intra regional trade is now comparable to the 66% of the European Community. As at 1988, 85% of tourists and 80% of direct foreign investments among the Asia Pacific economies also originated from the same economies (see Table 10).

The dynamic growth, business networking and economic and financial interdependence among the Asia Pacific economies are likely to continue. Each country in the region, at its level of technology, wage rate, skill level and stage of development, is pushing forcefully to go up the ladder of industrial technology, to upgrade and to rise to a higher standard of living. The push from countries below the ladder, and the competitiveness of those at the same rung, exert a tremendous pressure on each country. The resulting complex web of complementary and competitive business and economic relationships create great opportunities for business partnership, while at the same time, being severely competitive, accounts

Table 10

Interdependence of Asia Pacific Economies

	1970	1988
Export	54.4%	65.8%
Imports	59.2%	65.7%
Tourists	–	85.0%
Direct Foreign Investment	–	80.0%

Sources: Pacific Economic Outlook, 1990–91; Pacific Economic Coöperation Conferences, 1990.

for the observed dynamism in the region.

The observation that in the next generation or two, the 1.1 billion Chinese in China, 20 million North Koreans, and 65 million Vietnamese will join the 42 million South Koreans, 20 million Chinese in Taiwan and 320 million in ASEAN in catching up and narrowing the gap with the industrialisation and standard of living of the Japanese is not too far-fetched. This expectation can be fulfilled within the 21st century. After all, China, Korea and Vietnam are ancient civilisations which had, in the past, attained levels of culture and technology comparable to or even surpassing those of Japan of the same period. The educational potential, trainability, discipline and drive for success of their people are not inferior to that of the Japanese. In this era of information technology and knowledge based industries, the competitive advantage lies with those people who are avid and fast learners, who are flexible and willing to change and adapt to new technology and new external conditions.

The growth momentum in East Asia is expected to be sustained. For the decade of the 1990s, the Nomura Research Institute has projected ASEAN growth to be 6.8% (Thailand 8.1%, Malaysia 7.2%, Singapore 6.8%, Indonesia 6.2%, Philippines 5.8%), NIEs at 7.5%, China 8.0% and Japan 3.9%, compared to U.S.A. 2.7%, Europe 2.8% and world growth at 3.3%.

With sustained economic growth, rising income and educational level, the rapid emergence of the middle class in East Asia will have significant economic, social and political impact on the region and beyond. The region is no longer merely a low cost production base. It is becoming a considerable consumer market. Japan and the NIEs have reached per capita income of US$5–20 thousand dollars. More significantly, the ASEAN countries of 320 million people with income level of US$500–2,000 have passed the subsistence level and will generate a vast demand for manufactured goods. Based on existing trend in growth in output and consumption expenditure, by the year 2000 the East Asian market is projected to be comparable in size to that of Western Europe. Japanese big names in retail industry, like Yaohan, Takayashima, Daimaru and Sogo have all geared up to that in their expansion of retail supermarkets in the region.

Segments of consumer markets have become important. In Japan and the other NIEs, single women in the early to mid-twenties are driving the domestic retail and regional tourist expenditure, particularly in Singapore and Hong Kong. Equally affluent and willing to spend is a new generation of young, two-income families. As the proportion of women in the labour force increased from about 25–30% in the early 1980s to about 45% in the early 1990s, East Asian working women are buying convenient foods, microwave ovens and disposable nappies. They are also buying more cosmetics and brand-name clothes. Rising middle class affluence is also reflected in a greater market for natural and health food like low fat fruit yoghurt and milk, non-dairy creamer and cholesterol free products.

While the diversity of the region, scarce marketing data, fragmentary distribution and retailing channels, and the difficulty in advertising on television and radio in some countries can pose initial formidable challenge, the lessons learned in some of the NIEs, especially about how to package and advertise products for Asians, should pay off handsomely as the Malaysians, Thais and Indonesians start their consumption boom over the next twenty years.

The rapid rise of the middle class in East Asia will not only have significant business and economic implications, but also social and political impact. Throughout East Asia, politics is scrambling to keep up with economics. The sort of freedom which makes people take independent economic decisions and initiatives to uplift themselves out of poverty will inevitably spill over into the desire for the freedom to choose their rulers and speak their own minds. Pluralism and participatory democracy is the inevitable trend. Taiwan, Korea and Singapore, at varying pace, are groping for the new political institutions in conformity with their evolving social and economic realities. While East Asia will inevitably look more and more like the West with the dominance of middle class values, one should not expect the conventional two party system of the western world to emerge. It is more likely that, with the dominance of vertical, hierarchical relationship and consensus as the primary cultural values, the East Asia political system will result in a single dominant party with peripheral parties rather than the duo party system.

The poor resource endownment of the East Asian Societies, particularly in terms of cultivatable land per capita, has had tremendous impact on the development of their culture and the path of economic development. Overall, crowdedness and the constant need to be conscious and sensitive to others around, result in the evolution and development of a culture that is more group oriented, cohesive, inter-generationally closely knitted and less individualistic. Given the poor land to population ratio, Darwinistic survival forces will ensure that individuals or value systems that emphasise individual self-interest would be weeded out or severely constrained and circumscribed in their development. This cannot help but also be reflected in the evolution of their political institutions.

Underlying the broad flow of trade, investment and capital in East Asia, the rôle played by the overseas Chinese is a very significant but sometimes sensitive one. Outside of the mainland, there are about 50 million overseas Chinese, including those in Taiwan, Hong Kong and Southeast Asia. The Guangdong emigrants have gone not only to Hong Kong but Thailand, Malaysia and Singapore, while the Fujian diaspora has outposts in Taiwan, Philippines, Indonesia and Singapore. Hong Kong and Singapore are actually the nerve centres of their business and financial links and network, one serving the Northeast Asia hinterland, the other the Southeast Asia hinterland. While limited research has been done on their business and financial network, it is generally acknowledged by those dealing and meeting them in various private and official capacities that their wealth and influences are significant and the networks among them that span the national boundaries in East Asia are strong and extensive. Each of these communities is tightly knitted and closely linked to the others through family connections, clan associations, business networks, associations and clubs.

Gathering greater momentum in the recent ten years, this overseas Chinese network has spread across the Pacific to North America and Australasia. In addition, the first generation of partriarchal figures have gradually passed on the business to their professionally trained children or outside professionals. All across East Asia we witnessed this phenomenon, from the Salim and Astra groups in Indonesia to Hong Leong, OCBC group in Singapore, Kuok Brothers in Malaysia to Bangkok Bank in Thailand.

At present, in terms of economic and financial strength, the 50 million Chinese is a force second to the Japanese in East Asia. With the expanded growth prospects in Southeast Asia and China relative to Japan, their relative strength is likely to grow in the 1990s and 21st century. Already, the overseas Chinese account for 60–70% of cumulative total investment in the whole of China. In Guangdong, out of the $20 billion invested in 15,000 projects so far, overseas Chinese account for over 80%, while in Fujian they account for more than 70% of the $3.5 billion invested in 4,000 projects.[10]

5. Some Implications for Australian Business and Public Policy

Despite the significant and expanding trade and business linkages in East Asia, it is important to realise that below the surface, East Asia is far from a monolithic and homogeneous group. They are very different countries, with different histories and

10. *Economist*, 5 October 1991, pp. 21–24.

often strong bilateral animosities going way back in history. It is also important to bear in mind that if one adds up all the economies of the NIEs and ASEAN, they amount to only about a quarter of the size of the Japanese economy.

The memory of the Japanese occupation during the Second World War, the fear of Japanese economic dominance and the concern about the lack of technology transfer from Japanese companies, are sentiments that play an important rôle in shaping public policies in East Asia. This probably partly explains why the ASEAN countries have been somewhat lukewarm to Malaysian PM Mahathir's proposal of an East Asian Economic Group (EAEG) recently diluted to be called an East Asian Economic Caucus (EAEC). East Asia wants the U.S.A., and by extension Europe, Canada, Mexico and Australasia, to be major players in the region, as a counter-balance to the overwhelming dominance of Japan.

In the ASEAN Summit held in Singapore in January 1992, the ASEAN countries decided to work towards a Free Trade Area (FTA) in fifteen years. Prior to that, in October 1991, Singapore signed a bilateral Trade and Investment Framework Agreement (Tifa) with the U.S.A. Mrs Carla Hills, in commenting on the ASEAN FTA and the U.S.–ASEAN Memorandum of Understanding on trade and investment signed in December 1990, has suggested the possibility of ASEAN FTA linking up with the North America FTA. These events have tremendous implications for Australian public policy, particularly the rôle of APEC, the initiative of former Prime Minister, Bob Hawke. In this case, Australia's long term strategic interests are very much the same with most of East Asia, i.e., ensuring a continued major presence of the U.S.A. in the Western Pacific, a sufficiently open North American market, promotion of the Australian APEC concept as the most important umbrella group for trans-Pacific economic coöperation, and moderating Japanese dominance in the region.

Australia has recently undergone significant trade liberalisation. Until 1988, many sectors of the economy were shielded from the full force of international competition by tariff levels that were high compared to those in other industrial countries. But in May 1988, the authorities embarked on a program of unilateral and progressive lowering of tariff rates through 1992. This policy was reaffirmed in the March 1991 Economic Statement which called for tariffs, except for passenger motor vehicle (PMV) and textiles, clothing and footwear (TCF), to be lowered further to 5% by June 1996.

This liberalisation trend will inevitably accelerate the progressive trade linkages between Australia and East Asia. With Australia's business, industry and service sector having more extensive experience in catering to an affluent middle class and their pattern of demand, the expanding middle class in East Asia could be a major market in products ranging from special niches in garments like track suits to natural and health food, environmental protection to educational, health, leisure and financial services. For the rising East Asian middle class suffering from congestion and pollution resulting from high growth, the image of a clean, green pollution free environment could be usefully exploited in marketing a whole range of consumer and food products.

Personal relationships and networks are important in East Asian business. Overseas Chinese in the region, who are largely urban, more westernised and speak better English, particularly the young to middle age who are professionally trained, will pose fewer problems for Australians to penetrate and build up personal and business links. Some of the Asians now in Australia could probably be useful in serving as agents and country representatives to facilitate linkages and penetration. Singapore and Hong Kong, being nerve centres of Overseas Chinese business activities, are definitely the best places to start.

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