East Asia's Industrialization and the Currency and Financial Crises within the World Economy

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Introduction

In the main economic schools, East Asia's industrialization and economic growth have generally been discussed within the framework of the 'national economy.' However, this framework is not sufficient to analyze the Asian economic phenomena. The region's industrialization, which began from the newly industrializing economies (NIEs) in the 1960s, expanded into the region of the Association of South East Asian Nations (ASEAN), China and so forth during and after the second half of the 1980s. The Asian currency and financial crises which originated from Thailand's baht crisis of 2 July, 1997, also spread quickly throughout the ASEAN region and South Korea, and are still having severe effects on nearly all of the East Asian economies.

In actuality, in the entire East Asian economic phenomena, including both the industrialization and the currency and financial crises, there are links connecting one country to another like balls in a billiard game, and there are also strong links with the world economy. With regard to the industrialization: (a) it originated in the Asian NIEs in the 1960s, and then moved onto the ASEAN countries, China, etc. as mentioned above; (b) from the very beginning of the industrialization process, the East Asian countries were able to smoothly move their manufactured goods into the world market; and (c) this fact was directly or indirectly related to the global production activities of international capital. In addition, (d) production technologies were imported from the advanced countries, especially the United States and Japan. The East Asian countries studied these technologies to attain their industrial based economies. With regard to the currency and financial crises: (a) Thailand's crisis spread to Malaysia, Indonesia, South Korea and other countries in just a few months, and even to the United States, as well as Japan, which was in structural crisis. On the 27th of October 1997, the New York Stock Exchange experienced its worst drop in history, and trading was suspended. Moreover, (b) in almost all East Asian countries that have experienced crises, sharp simultaneous drops have occurred in the stock and real

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estate markets, as well as in foreign exchanges. (c) Short term capital inflows from the international financial markets were responsible for bringing the countries into crises that began when capital began moving out.

To analyze the East Asian economic phenomena, it would be insufficient to simply gather analytical results of the different economies based on the framework of the 'national economy.' We need to use the world economy approach.

In this paper, I will first examine the main schools and their approaches to the Asian economies, showing that the world economy approach is the proper way to understand them. Secondly I will examine them from the viewpoint of late industrialization. Thirdly, I will show that East Asia's experience has been a very new type of industrialization in capitalist history and that the currency and financial crises occurred within the same world economic structure. Lastly I will point to some implications of the casualisation and feminization of the labor force in Asia from the framework of the world economy.

1. East Asia's Industrialization and the Approaches of the Main Economic Schools

East Asia's industrialization, which has drawn significant international attention since the end of the 1970s, started from the Asian NIEs, namely, Korea, Taiwan, Hong Kong and Singapore, countries which are rather small and poor in terms of population, land area, resources and so forth. At the time, thus, this could be seen as an exception. However, the industrialization and economic growth now have to be understood in the context of East Asia as a whole, since they began to spread rapidly to ASEAN countries and China, etc., since the second half of the 1980s. The field of research has widened from the Asian NIEs as 'points' to the whole of East Asia as an 'area,' and consequently there is a need to change the theoretical framework for research into East Asia's industrialization.

There are three major contemporary approaches among the main economic schools which study East Asia's industrialization and economic growth. The first is the growth chain of the 'national economy' approach, the second is the company approach, and the last is the world economy approach. Among other schools which are worthy of note, there is the historical approach, which lays stress on industrial origins, the Chinese economic zone approach, and the Confucianism approach. The historical approach does not aim to study East Asian industrialization itself, but is nevertheless important as one useful viewpoint in looking for the historical factors behind the development of East Asia. The Chinese economic zone approach seems to have a tendency to confuse developmental factors which may become important in the future with the main factors of the established industrialization. There are also researchers who give particular attention to the cultural factors, particularly Confucianism, Asian values and 'Asian ways' as developmental factors, and who stress differences from Anglo-American culture. However it is difficult to simplify the region, with its enormous diversities in terms of culture, religion, historical background and so forth, into one Asian culture, value or way of thinking. Such thinking appears to grasp Asian industrialization and its influence by reversing a causal sequence.

(1) The Growth Chain of the 'National Economy' Approaches

(i) The Neo-classical School's Growth Theory and the Statist/Institutional Approaches

Neo-classical economists claim that East Asia's industrialization and economic growth are the results of market mechanisms which developed industries with relative advantage under a situation of 'free trade' that was part of the states' export-oriented policies. According to these economists, East Asia's experience is a success story to be contrasted to the opposing positions of import-substitution industrialization, which was used by the newly emerging independent states after World War II, and to the centrally-planned economic industrialization adopted by the socialist countries. In the latter cases, states caused economic stagnation by intervening in the markets. However, it is true that neo-classical economists recognized the fact of state intervention in the market in East Asian countries in their early stages.

It is possible that this assertion was based on an incomplete theoretical understanding. Neo-classical economists have now begun to recognize the role of the state in industrialization in terms of 'market failures,' owing to criticisms of their studies by statists. In *World Development Report 1991*, the World Bank explained the growth in the East Asian countries, such as Korea and Taiwan, using the notion of the 'market-friendly' approach. East Asian Miracle issued by the Bank in 1993, also focused on the role of states in East Asian countries, especially Japan, South Korea, and Taiwan, where states had adopted industrial policies to develop and industrialize their countries (World Bank 1993: 21). In addition, *World Development Report 1997,* which focused on "the state in a changing world", came to the clear view that countries with undeveloped markets needed industrial policies to develop.

In contrast, the statist and/or institutional approach, which includes C. Johnson and Alice H. Amsden asserts that states ought to assume a role which is greater than simply 'making up for market failures.' In particular, Amsden explained the industrialization of South Korea using the symbolic expression of 'getting relative prices wrong.'

In the end, the dispute between the neo-classical and non neo-classical schools has generally been limited to whether states should do more than just making up for 'market failures.' But both seem to converge on the issue of industrial policies and 'good governance.' Their fundamental framework of thought is based on the premise of the 'national economy,' or the country unit. Furthermore, since their analysis is based on the individual country, they require additional factors to explain the spread of industrialization throughout East Asia. This is the reason why Chinese culture, Confucianism, the Asian political economic system, Asian values, and so on, have been given increasing attention.

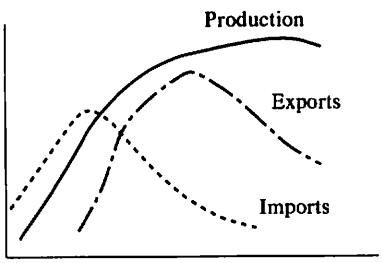
(ii) The Flying Geese Models and the Continuity of Structural Conversion Model

One group of influential interpretations of East Asia's growth are the so-called 'flying geese models.' Representative examples of this model are the final report of the research project on developing economies of the Department of Research Cooperation of the Economic Research Institute, the Economic Planning Agency, Japan, namely, 'the interdependence of Economic Development between East Asian

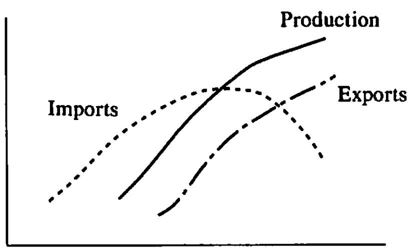
Economies' (Economic Planning Agency 1993: chapters 3 & 7), the *Economic White Paper 1994* and *White Paper on World Economy 1994* issued by the Economic Planning Agency, Japan. They propose to understand East Asia's industrialization by looking at the trade structures of products in Japan, the Asian NIEs, ASEAN, and China, with each group in a lower position catching up in turn to the higher group by exporting goods at higher value-added, while pursuing Japan, which is first in line, and with industries with lower value-added moving in turn from Japan to economic

Figure 1 Akamatsu's Flying Geese Models

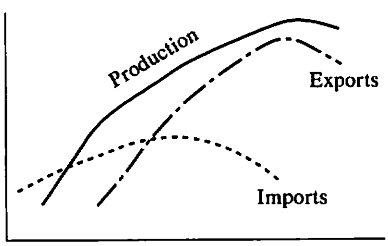
a) Fundamental Model (Japan's Experience)



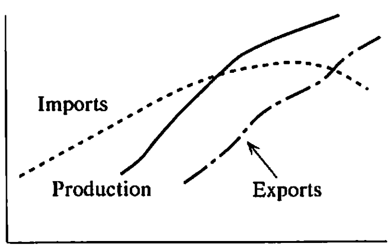
(i) Cotton Yarn



(iii) Spinning and Weaving Machinery



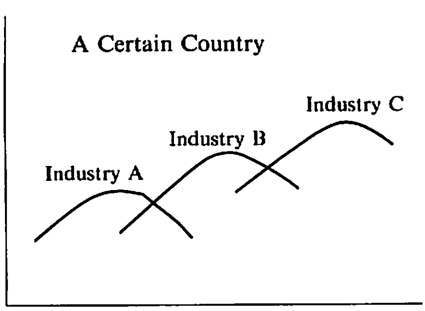
(ii) Cotton Cloth



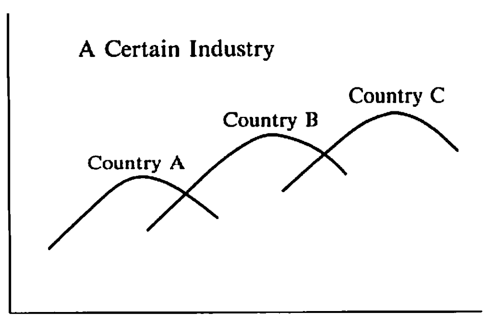
(iv) Machinery

Note: Axis of ordinates is value and axis of abscissae is the period from 1968, the first year of Meiji area, to 1945, the outbreak of the World War II.

b) Secondary Model



b)-1 Continuity from consumer goods to capital goods in a certain country



b)-2 Succession of countries in a certain industry from the first to following countries

Note: Axis of ordinates is value and axis of abscissae is years
Source: a) Akamatsu (1965: 174), b) drawn by the author.

groups in lower position (Economic Planning Agency 1994: 304).

The original flying geese model, which was developed by K. Akamatsu, who created models of Japan's industrialization as 'a late comer,' is shown in Figure 1. According to Akamatsu, the 'flying geese model is named after the shape of the three curves (imports, exports and production) (for Japan, the late industrializer), namely flying wild geese.' And, 'we use the fundamental model to designate the continuity of imports, production and exports of manufactured goods, and designate continuity from consumer goods to capital goods, and also from simple goods to precise goods, as a secondary flying geese model. In addition, the succession of countries in a certain developmental stages from one to the next, from the most advanced country to countries following afterward can also be called a secondary model,' he wrote (Akamatsu 1965: 173). Akamatsu designated the flying geese model as a staged continuity of a certain industry by country, and continuity from consumer goods to capital goods and from simple goods to precise goods in a certain country, but those were secondary models. The fundamental model is the continuity of imports, production and exports in a country.

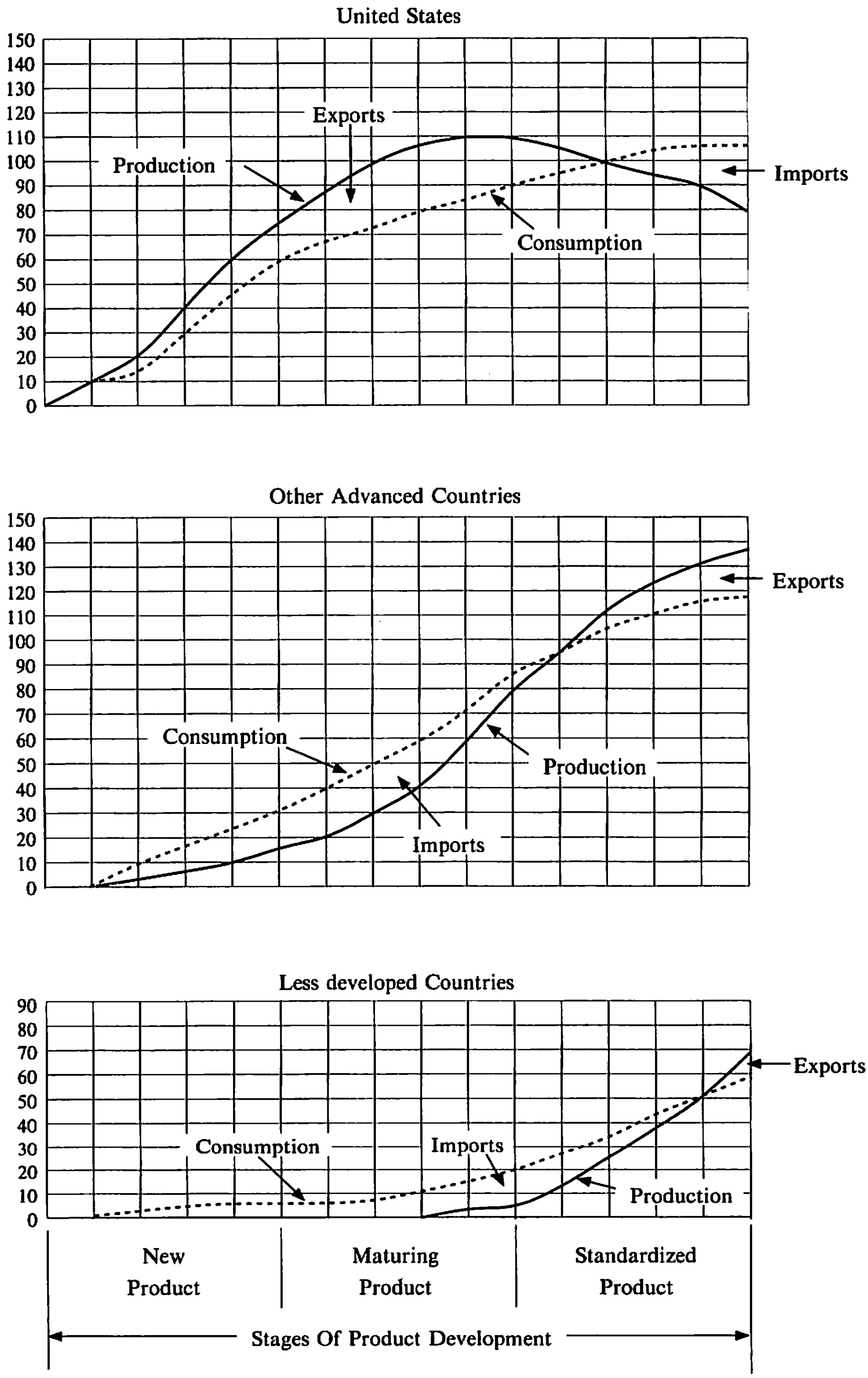
This is the positive contribution of the characteristics of Akamatsu's flying geese models. The fundamental issue is the continuity of decreasing import goods by promoting import-substitution industries and later increasing export goods. Domestic industries advance to a higher stage, while inferior industries move internationally from countries in higher position to ones in lower positions. It is these continuities that are the secondary models.

What are the views of the Economic Planning Agency, Japan on this issue? It designates the secondary models as the flying geese model, with the apparent understanding that autonomous 'national economies' unconsciously emerged one after another in East Asia.

Incidentally, as the flying geese model depicts the 'catching-up product life cycle model' for late industrializers pursuing higher income countries (Kojima 1970: 1), it is similar to the product life cycle model developed by Raymond Vernon as a hypothesis to explain, from the viewpoint of company studies, the appearance of United States-based multi-national corporations. But the model in the 1966 paper, as shown in Figure 2, is made up of two curves, namely the consumption curve and the production curve. The product life cycle model shows that as a product moves technologically from a new product, appearing in the United States, to a maturing product and finally to a standardized product, the product's consumption begins (that is, imports), followed by production (import substitution) and export (more production than domestic consumption) in other advanced countries and in less developed counties (Vernon 1966: 199). The course of industrialization in all countries is seen as a type of building of the 'national economy.' This is because in the 1960s, when Vernon did his research on US-based multinational corporations, they were vigorously investing in European countries. European countries were considered advanced countries with their own 'national economies,' and in those days US-based multi-national corporations had foreign direct investment strategies based on the domestic markets of foreign countries.

Another influential viewpoint in Japan regarding East Asian industrialization was the structural conversion hypothesis advocated by T. Watanabe. He wrote that the economic growth of Asian NIEs represented a contemporary manifestation of

Figure 2 Vernon's Product Life Cycle Model



Source: R. Vernon (1966: 199).

Gerschenkron's advantages of backwardness in Asia. He also asked why the benefits which ought to have been distributed among developing countries in general could only be found in a few of them, and answered that it was because most developing countries lacked the ability to realized the latent advantages of backwardness, which he named 'social capabilities,' meaning the technical skills of workers, entrepreneurs' management abilities and bureaucrats' administrative abilities (Watanabe 1985: 15).

However, the industrialization and economic growth which was initially confined to the Asian NIEs spread all over the East Asian region. So Watanabe developed an idea of 'continuity of structural conversion' and 'conversion ability.' According to Watanabe, "East Asia is the right region which has reached the present strong position thanks to 'high conversion ability' in response to the 'challenge' of upheaval in a given condition." He also explained East Asian growth as a chain structure in which ASEAN and China were able to attain hyper growth by exporting their products, while Japan and Asian NIEs played the role of absorbers. The necessary preconditions for realizing the latent advantages of backwardness changed here from 'social capability' to 'conversion ability'(Watanabe 1995: 140-80).

Do the neo-classical free trade approach, the statist approach, the continuity of structural conversion approach, or the flying geese model, which all work within the framework of the autonomous individual 'national economy,' correctly understand East Asia's industrialization and economic growth? Why has this domino pattern growth taken place only within the East Asian region? Why do East Asian countries have uniform 'conversion abilities' when they are diverse in terms of culture, language, historical background, resources, political systems and so forth? Are the economic structures of present East Asian countries the same as the traditional 'national economies'?

To begin with, East Asia's export-led growth, which was largely dependent on foreign direct investment, did not coincide with the growth of the 'national economy.' One researcher, who studied export industries such as clothing and electronics in the ASEAN region from the viewpoint of the flying geese models, found that these industries in ASEAN countries skipped the stage of import substitution (Yokota 1992: 82-4), which is considered an essential stage by Akamatsu. Though multinational corporations and international corporations developed an intra-industry division of labor through their foreign direct investments within the East Asian region, these investments from advanced countries have recently deepened the intra-firm and intra-process divisions of labor (MITI 1995: 251-61). Moreover, since Japanese-, US- and NIEs-based corporations compete against one another to get a better position in the world and in the East Asian markets, it is unreasonable to analyze East Asian industrialization using the flying geese models. M. Hobday wrote, 'although the various flying geese models attempt to see East Asia as an integrated region, one immediate difficulty is that there is no mention of the overseas Chinese in the region's development,' thus criticizing the flying geese model for ignoring the role of the overseas Chinese (Hobday 1995: 21, 23).

At any rate, understanding East Asia's industrialization and growth on the basis of the traditional framework of 'national economy' is, unconsciously, equivalent to grasping it on the assumption that national economies being built. However, this is not the real growth mechanism of East Asia.

(2) The Corporate Approaches

MITI's *White Paper on International Trade* and the Economic Planning Agency's *White Paper on World Economy*, while indicating the assumption of the same epistemological framework of the 'national economy,' have focused on the East Asian economic growth by foreign direct investment since the end of the 1980s. For instance, 'the role played by foreign capital was quite important for the economic growth of the East Asian region and countries,' 'the flow of foreign capital into the area drastically changed the structure of the region's industry through the introduction of new production technology. Looking at this transformation through the shift of export items, it could be thought that the trend of items shifted from labor intensive light industrial products, such as textiles, to heavy industrial ones, such as machines and mechanics, roughly corresponding to the stages of economic development the region was in,' stated the *White Paper on International Trade 1995* (MITI 1995: 264). It was assumed that changes had occurred in the proportion of foreign capital in gross domestic fixed capital formations and trading structures of NIEs, ASEAN and China.

The *White Paper on International Trade* acknowledged the importance of foreign direct investment into East Asia by pointing to statistical facts and presenting an analysis that these figures had resulted from the development of Japanese corporations' activities in the East Asian countries.

One of the most influential approaches to explain this has been the 'company-ism theory' initiated by the Institute for Social Science, the University of Tokyo in the 1980s when Japanese companies were enjoying the top place in the international economy.

Hiroji Baba, the creator of the idea of 'company-ism,'(kaisha-shugi[1]) stated that, 'the word was originally coined to express the dualistic nature of current Japanese society, compared with the West: one is more capitalist orientated and the other more akin to socialism. This character stems from a method of capital formation which is quite unique to the organization of Japanese companies. And the word is also a typical expression of the mentality of Japanese employees of belonging to their company. It links the social structure, capital's distinctive features and social consciousness in our daily life, which is supported by the latter' (Baba 1997: 320). According to Baba, the idea of 'company-ism' was formed in the 1960s, the first half of Japanese rapid economic growth. It accompanied the growth during the late 1960s and worked as a traction power when the growth lost its speed. The center of the idea lies in Japanese industrial relations, which consist of 'the trinity of life long employment, seniority order system and enterprise union' (Baba 1991: 63; idem 1997: 322). This idea, as a set, spread across East Asia through the foreign investments of Japanese companies.

The multinational company research group in the Institute for Social Science put forth the analysis that the direct investment of Japanese companies into the area which includes East Asia 'works as a propeller with its dynamic contribution to form an economic community of great importance' (Itagaki, ed. 1997: 2). The group examined the transfer of the Japanese production system to East Asian countries and concluded that, in Taiwan and South Korea, the system in Japanese-owned main plants which assembled and made parts for electric and car manufacturing was appropriated and infiltrated better than in other countries such as the United States (Ibid.: 289). Akira Suehiro at the Institute also suggested, 'it is the production system of the Japanese companies itself that produce export competitiveness in the current Southeast Asian region' (Suehiro 1995: 188).

The mechanism that propagated Japanese management and production systems throughout East Asia is in some way supported by the flying geese model (Baba 1995: 36; Suehiro 1995: 183), and in another by the transfer approach through Japanese MNCs (Baba 1997: 326). Nevertheless, compared to traditional methods of analyzing East Asia, these are new approaches which see East Asia's industrialization and economic growth through the activities of companies beyond its own borders. It would be correct to say that these understandings are underpinned by the fact that the main agency of globalization is the international corporate activities, and that Japanese companies played a particularly major role in East Asia's industrialization.

However, it is not possible to understand the region's industrialization and economic growth solely through the transfer of companies' production activities and systems. As we saw in the previous section, East Asian growth has been export oriented, and the structure of the international division of labor, as it generates more and more division of manufacturing processes, does not fit into the traditionally presupposed pattern of growth of autonomous 'national economies.' Still, the role of states is important in the industrialization of the less developed countries in East Asia, as was seen in the attention given to states' industrial policies through the debate between the neo-classical and the statist and/or institutional approach. The theories of East Asian industrialization should be capable of answering the question of how to integrate companies and states.

(3) The World Economy Approaches of East Asian Industrialization

The world economy approach can be further divided into two understandings. One is the dependency approach and the other the World System approach. The former was represented by Andre G. Frank, Samir Amin, and others in the 1970s and early 80s. These theorists understand the industrialization and economic growth of Asian NIEs merely as a process of these countries becoming subcontractors for international capital so that the exploitation of cheap labor can continue, with no solution of the problem of poverty in the area. However, the spread of industrialization into the NIEs, the ASEAN countries, and China brought rapid increases in exports, certain improvements in technology, and increases in income. Industrialization also encouraged the development of local capital. As far as these elements were concerned, adapting the dependency approach to East Asia would be seen as an 'anachronism,' as Toshio Watanabe pointed out.

It is not sufficient, nevertheless, to simply accuse the dependency view of having misjudged the situation. The question is why this school did so. Two arguments could be brought to light to explain this.

Firstly, it may be that the growth in East Asia after World War II was a new experience for the world which was simply not explainable by existing historical analysis, such as Frank's. His recognition of the dependency approach was established in *Capitalism and Underdevelopment in Latin America* published in 1967. This book was a comprehensive but empirical grasp of the relationship between trade and development in Chile and Brazil since the 16th century. The trouble was that it was received as a pan-historic generalization of the dependency approach.

Secondly, different insights might have emerged depending on how one interpreted the fact that some local capital was developed in a position of subcontracting to international capital. From this point of view, it is necessary to look into the theory of the New International Division of Labor (NIDL), which offers a new perspective albeit one sympathetic to the view point of the dependency school. NIDL, as presented by F. Fröbel, H. Heinrichs and O. Kreye, all German economists, is an empirical study of the transfer of production from developed industrial countries to the Third World. It defines three conditions for the formation of a new international division of labor: (a) the global appearance of a potential labor force; (b) the division of the production process through the development of technology and labor organization; (c) liberation from the geographical limitations of industry and production management siting as a result of the development of transportation and telecommunication technology (Fröbel et al. 1980: 33-36).

To these conditions should be added competition in the international market after World War II as the intensification and global expansion of enterprises, which was enabled by technological innovation, drove the East Asian labor force to be utilized by the capital of developed industrial countries.

The NIDL, which was born under these circumstances, encouraged direct foreign investment by international capital/MNCs and the utilization of local capital, resulting in the establishment of the basis for development of the latter (Hirakawa 1992: chap.3). International capital vigorously utilized the system of original equipment manufacture (OEM). These contracts led to the opening, albeit narrowly, of the route to development of local capital. M. Hobday empirically provided the route on which the local capital of East Asian NIEs developed, with technology accumulation, from OEM to own design manufacture (ODM) to own brand manufacture (OBM), changing the relation between markets and production (Hobday 1995). Though it was a very difficult task, the local capital opened up a considerable opportunity for development by relying on the international strategies of MNCs.

The second world economy approach is the World System approach. Whereas theorists of the dependency school grasp the world as having a dual structure of core and periphery, the World System approach considers the world's structure as consisting of three parts: the core, the semi-periphery and the periphery; and sees the semi-periphery as the most potent sphere towards some higher status.

However, I. Wallerstein, the authority of this school of thought, in his 1979 book, *Capitalist World Economy,* did not mention any of the areas or countries of the East Asian NIEs group as semi-peripheral. However, he did cite North Korea and the other ex-socialist countries as semi-peripheral(Wallerstein 1979: 100, 113)[2].

It seems worthwhile to probe into why this perception gap occurred. My conclusion is that the World System perspective failed in the 1970s, as did the dependency school, to recognize the actual change in the modern world economy or the historic newness of the new international division of labor. Even the World System approach in its early stage, reflecting the historical experience of that time, placed emphasis on the relative independence of the national economies in the core and semi-periphery as well as the role of the state in the promotion phase under the world system. But as I made clear in my critical analysis of the World System approach to East Asia, the experience of industrialization and growth in East Asia does not fit well into any of the various other approaches either. We therefore need to examine the series of problems arising from this. The analytical framework offered by the World System approach in this sense seems to be potentially helpful in interpreting the East Asian reality.

2. East Asia's Development as a Model of Late Industrialization

(1) The Development Models of the 20th Century and the World Economy

East Asia's industrialization and economic growth are fundamentally outward-looking, through exports to external markets, but at the same time they are directly and/or indirectly dependent mainly on the production of Japanese- and US-based multinational companies/international capital. If we look at this industrialization from the historical perspective, we can identify the major characteristics of the present late industrialization.

To begin with, let us look at the characteristics of the East Asian experience, starting from the development models of the 20th century. These models can be fundamentally divided into three. The first is the socialist model which came out of the Russian Revolution in 1917, the second is the import-substitution model of development which almost all newly independent countries after World War II adopted for their industrialization, and the last is the export-led development model of newly industrializing countries, especially including Asian NIEs, which has been adopted since the 1960s. Among the three models, only the NIEs model of development can be regarded as successful, while the other two must be branded failures.

The next question is: how should the different models be judged as successes or failures? Each model can be examined in terms of markets and the state, since the choice between the two is the most controversial point. The socialist model allows the state to intervene in the economy, excluding the market entirely. The import substitution model is considered a model of state intervention which is dependent on the domestic market, i.e. a mixed market-state model. Although the export-led, or NIEs model, appears to be a market model which relies on overseas markets, the intervention of the state cannot be neglected, as we discussed in the previous chapter. Therefore, it is not possible to identify success or failure based on the dichotomy of the state and market.

What then should be considered as the contents of the market? While the first two models, which tried to build an autonomous 'national economy,' relied on the domestic market, they resulted without exception in failure, the NIEs model has mostly succeeded through exports and foreign capital despite the structural differences between the countries and regions. There can be no success without a relationship with the world market and/or the world economy. This is the most important lesson of 20th century development.

(2) Late Industrialization and the World Economy

Let us review the experiences of East Asia as an underdeveloped region. Based on the point presented by A. Gerschenkron, T. Watanabe argued for the advantages of backwardness in Japan. What is important here is that Gerschenkron pointed to structural differences with different stages. That is, the industrialization of underdeveloped countries can be divided into those of advanced areas, areas of moderate backwardness, and areas of extreme backwardness, with different driving forces for each phase: factories in the advanced area, banks and factories in the moderate backward areas, and state, banks and factories in the areas of extreme backwardness (Gerschenkron 1965: 355). This means that for the latecomers or countries, the scale gets increasingly larger, in fact which is disadvantageous for these countries.

Nevertheless, the advantage of latecomers is widely accepted, for once these countries have succeeded, the large scale apparatus enables them to make a spurt to industrialization and compressed development can be achieved. The advantage of the latecomers should be assessed in terms of their disadvantages.

The achievements of Alice H. Amsden and Korean economist Kim Young-Ho deserve to be noted as analyses of East Asia's industrialization from the above-mentioned point of view. Amsden noted that industrialization allowed the acquisition of technology, a process in which the state played a key role. Technology was acquired through invention in the 18th century, innovation in the 19th century and learning of borrowed technology in the 20th century, while the states adopted policies of laissez faire, protectionism and subsidy, respectively, during each stage (Amsden 1989: chap.1). Kim introduced the idea of the 'generation' approach to grasping late industrialization, which is more appropriate than the traditional analysis used to illustrate different stages.

According to Kim Young-Ho, the whole process can be divided into four generations: the first generation of industrialization was England, the second included France, Germany and the United States. Italy, Russia and Japan belonged to the third generation; and South Korea, Taiwan, and the other current industrializing countries are the forth generation. The industrialization was promoted by private companies during the first generation, banks and private companies during the second, the state and big companies during the third, and the state, foreign capital and big companies (a triple alliance) during the fourth. With regard to the acquisition of technology for underdeveloped countries, Kim also presented the technological double-gap model as a dynamic model of technology transfer (Kim 1988: 18 & chap. 6)[3].

Both Amsden and Kim gave the impression that underdeveloped countries would succeed in building 'national economies' through industrialization. However, they both suggested more importantly that for the fourth generation, technology played a more significant role than it did in the age of Gerschenkron, while foreign capital and the transfer of advanced technology were determining factors for East Asian industrialization.

What, then, is the relationship between the world economy and domestic economies in the industrialization of underdeveloped countries? Although the industrialization of the first generation created the world market, even in England imports of competitive products such as calico were banned during the early stage. For the second and the third generations, the 'national economy' was pursued by adopting the import substitution strategy. This suggests that all the industrialization and development models, from the first to third generations, were based on the domestic market, and both the socialist planned economy model as well as the import substitution model of the 20th century succeeded as orthodox development models. Nevertheless, they failed without exception in the latter half of the century.

In conclusion, the East Asian industrialization, which started from the NIEs, is characterized by the fact that it has gone beyond the 'national economy,' in a way unprecedented in history, while preserving the state as an important driving force. The basis of growth is inseparable from the international division of labor as structured by international capital/MNCs, in a way that goes beyond the 'national economy.' From this perspective, the NIEs model can be called the 'invitation of world economy' model, in which East Asia responded to the demands of the current world economy through export-led industrialization.

It should be noted here, however, that while the past development experiences resulted in the formation of a 'national economy' that confronted the world economy as a given condition, East Asia's experiences have been carried out successfully by merging with the dynamics of the world economy.

As a result, the role of the state has changed. That is, the current relationship between the state and the market has been reversed, and now the state must have the power and ability to 'participate in the world economy,' rather than 'to establish a national economy' as was seen in the past (Hirakawa 1997: 20).

3. The Essence of East Asia's Currency and Financial Crises

(1) East Asia's Currency and Financial Crises

The exports of East Asian countries became stagnant in 1996, but until the summer of 1997, major international organizations held the general view that economic growth would nevertheless continue in these countries.

However, on July 2nd 1997, the currency crisis erupted in Thailand. The exchange rate for the Thai baht before its devaluation was US \$1 = 25.79 baht, but as it switched over to a marginal floating system, the rate fell to 40 baht by the end of October. The Thai crisis soon induced falls in currency, stock prices and property prices in other East Asian countries. On August 14th, Indonesia switched over to a total floating system, and on 23 October of the same year, the Hong Kong dollar which was still pegged to the US dollar, came under pressure from HK\$ sales, and stock prices fell. In Korea, although financial corporations were failing, it was said that the country would escape the Asian currency and financial crises. In fact, on 17 November, the exchange rate for the Korea won dropped to US\$1 = 1000 won, on the 21st, a request for US\$20 billion in aid was made to the IMF, on 3 November, an agreement of US\$55 billion was reached with the IMF, on 10 December, 5 non-bank institutions stopped operations, on the 15th the foreign exchange was switched over to a total floating system, and on the 24th of the same month the exchange rate plummeted to a rate of US\$1 = 2000 won.

The effects of the Asian crises kept on spreading from there throughout the region. After the HK dollar sales, the New York Stock Exchange recorded the biggest drop ever in stock market history on 27 October and all trading was stopped. On the same day in Tokyo, the Nikkei stock price average fell below 17,000 yen, which was equal to the price 2 years and 2 months earlier, in August 1995. Although the New York Stock Exchange market rallied on the next day, this showed that the currency and financial crisis in East Asia has influenced the developed countries, if only temporarily.

In 1998, the East Asian currency and financial crises have had severe effects on many countries. In Indonesia, demonstrations held mainly by students against President Suharto reached a peak on 21 May, forcing Suharto, who had held power for 32 years, to resign. In Korea also, unemployment is growing rapidly and the unemployed population is expected to reach 2 million. Labor strikes are continuing.

(2) Interpretation of the East Asian Currency and Financial Crises

Why did the East Asian currency and financial crises occur? There have been a variety of interpretations, but generally they have been explained as below. The dollar pegging system taken by Thailand and other East Asian countries accelerated short-term capital inflows from international financial markets. For foreign investors, the low interest rates in the advanced countries forced them to make foreign investments (Fernandez-Arias 1996), and on the other hand, East Asian financial institutions were seeking foreign capital. Because of this, under a condition of zero foreign exchange risk, it was very easy to obtain profit margins for fund management given the high interest rates in East Asia. Therefore, plenty of short-term capital inflow entered to Thailand, as a typical example, and East Asian countries achieved high economic growth rates together with increasing stock and real estate prices, bringing about bubble economies.

However, the exchange rate of the Chinese renminbi to the US dollar was devalued 35% in 1994[4)], and even the yen fell to 120 yen to the dollar in 1997, a rate 20% cheaper than in 1995, and this caused the East Asian currencies to become relatively high compared to the yen. Because of this, the export competitiveness of the East Asian economies fell, and exports began to stagnate in 1996. Furthermore, the current accounts of many countries were worsening, and this aroused uneasiness towards their economic prospects in 1997. All at once, an accelerating outflow of capital began from the region.

The East Asian countries were not able to maintain their dollar pegging systems, and switched over to floating rate systems one after another. This caused currency collapses, and the financial institutions and real estate companies which once found it easy to borrow money from the international markets were forced to shut down or fall into bankruptcy; plenty of loans turned into bad debts.

What were the real reasons for this crisis? Although these have not been tidied up theoretically, some of the reasons can be found below.

First, according to the IMF and most neo-classical economics, the crisis happened because the state-led Asian economies could not cope with market changes. Under the state-led economic management, part of the plutocracy- and family-owned companies, which had easy access to capital, over-invested. The collusion between bureaucrats and businesses caused economic inefficiency. This inefficiency, which appeared within the progress of globalization, caused the crisis.

Second, policy mistakes were also one of the reasons. The dollar pegging regime prevented foreign exchange risks and allowed the use of easily obtained short-term capital to cover the debts and current account deficits. For example, BIBF (Bangkok International Banking Facilities) and the liberalization policy itself which was set by the Thai government, might have been correct, but the implementation of financial liberalization was carried out carelessly.

Third, P. Krugman criticized the *East Asian Miracle*, pointing out the problems of East Asian growth, at a time when everyone was still praising its growth. Although he, like nearly everybody else, failed to foresee the crisis, what he pointed out needs to be appreciated. He used the growth-accounting approach to analyze the region's growth. Only part of the growth could be explained by productivity, but almost all could be explained by inputs. This meant that if input stopped, then the growth would also come to a standstill. He also made a similar analogy regarding the growth of the ex-Soviet Union (Krugman 1994).

Fourth, S. Radelet and J. Sachs expressed doubt that the state-led economy had come to a deadlock. They said that the Asian currency crisis is just one of the phenomena that occurs during the process of rapid economic growth, and because 'global capitalism stirs powerful forces for economic growth,' if Asia can improve its financial management ability and modernize its system, it will continue to grow[5].

Fifth, the movement of short-term capital is expanding rapidly in the international financial markets, and this is believed to have been the trigger of East Asian currency and financial crisis. During the 1980s, international financial liberalization changed the world economic structure. In essence, this has changed the world economy from a real economy to one in which finance itself became a product. Actually, since the mid-1980s, cross-border capital flows have skyrocketed , far exceeding the amount of trade and foreign direct investments. According to W.H. Reinicke, 'in 1955 the combined annual value of global trade and foreign direct investment amounted to only six days of turnover on the global foreign exchange markets' (Reinicke 1997: 128). In other words, foreign exchange trading is about 60 times greater than that of real trade.

From this explanation above, we can conclude that the causes of the crisis can be divided into internal factors, namely the East Asian countries' problems, and an external problem, the excess of capital in the international financial markets. The internal causes are the authority systems and inefficiency, which merely became visible as the result of the crisis. In fact, in order to participate in world markets, the East Asian countries have needed to meet the needs of the world economy. This means they must accept American market customs. Thus, though the authority systems and inefficiency were not the root causes of the crisis, they have been problematized as such. The cause and effect relations have been reversed.

As stated earlier, after the 1960s the NIEs and other East Asian countries began moving toward industrialization and their economic growth became part of the world economy. Then, during the second half of the 1980s the economic structure changed and the dependency on foreign investment and foreign markets increased. This created the bubble economies and, eventually, crisis. It is necessary to say that the progress of information technology has also contributed to this phenomena.

It is considered natural that the developing counties have faced some problems in their economic management. They need to reform. However, it could be a mistake to see this as the essence of the Asian currency and financial crises. It should be remembered that the bubble economy and its collapse in Japan, and Black Monday which hit the NY Stock Exchange on 19 October 1987, also came as unexpected phenomena.

The crisis occurred in an era of excessive international capital, and thus very much was brought about by international conditions. Currently, as globalization progresses, national authority is being restricted. However if the risks of globalization become too large, then we cannot deny the possibility of the rise once again of national power. We should concentrate on how to regulate the vertical and horizontal transnational capital movements which have become such a major problem.

4. East Asia's Industrialization and the Labor Environment

(1) The New Stage of the New International Division of Labor

F. Fröbel, F. Heinrichs and O. Kreye focused their attention on the relocation of German manufacturers to specific Third World countries in order to export manufactured goods from there and from free trade zones created in these countries, and termed this phenomena the New International Division of Labor (NIDL). They have also pointed out three prerequisites for it, as shown above: (a) the development of a world-wide reservoir of labor power, (b) the fragmentation of complex production processes, and (c) the technological development of transportation and communications systems (Fröbel et al. 1980: 33-36). Here, the labor power they saw in the NIDL meant cheap and unskilled labor.

However, since the 1970s, and especially since the late 1980's, the development of microelectronics and high level information technologies have spread throughout the main advanced and semi-advanced economies, and a global economy has emerged. Given such circumstances, manufacturing sites for export to world markets, including the colossal US market have spread from the NIEs to the ASEAN region, China, and to all over East Asia.

It is safe to say that the main source of the competitiveness of East Asia has been the lack of workers' rights and inferior labor conditions, and this means that East Asian economies are 'capitalism without ethics' (Motoyama 1996: Introduction). This seems to be one of the main factors behind the hollowing out of industries in advanced countries (Saeger 1997: 579-605).

Today, more and more researchers are coming to support the notion that the advanced countries, even those with relatively autonomous 'national economies' have been destroyed and have reached the stage where they have lost their economic sovereignty (Miyazaki 1995: 4-7; Drucker 1997: 162). A growing number of researchers are worried about the new social and political problems which may stem from this harsh competition.

Among them is Makoto Itoh, who assert that the 'backwash of capitalism' — the meaning of this will be explained later — has taken place in the advanced countries, observing that the fruits of industrial democracy which were won during capitalist history are being threatened. According to Itoh, in the 1970s the development of capitalism in the advanced countries began to reverse its course of progress, which had continued from the last century on. In the advanced capitalist economies, there are three characteristics of this 'backwash of capitalism.' First, their industrial structures have changed from ones based mainly on heavy and chemical industries to ones mainly based on light, small-sized and software-centered industries, all this as a result of the development of information technologies. Secondly, due to the diffusion of automation in factories and offices, there has been an increase in the employment of informal workers, including part time workers working as housekeepers, temporary workers, sub-contract workers and so forth. By contrast, unionization rates are dropping, and unions are losing their negotiating power with management. Thirdly, the welfare state based on Keynesian employment policy is being dismantled as a result of the onslaught of privatization, while global competition has become generalized (Itoh 1996: 7-10). A reversal has taken place in capitalism.

Though Itoh associates the cause of the 'backwash of capitalism' with the development of information and communications technologies, at the same time technological development has freed capital from the limitations of time and space, and has led to international relocations of industries, and it is within this context that East Asia's industrialization sprung up. Capitalism has literally rushed into the age of global competition.

Incidentally, capitalism in East Asia has penetrated into rural areas, led to rapid social change, and accelerated urbanization. People looking for jobs have migrated from rural to urban areas. On top of this, there has been an international mobilization of unskilled labor force. *The Far Eastern Economic Review* (23 May 1996) estimated that the number of Asian migrant workers has reached at least 2.6 million, and pointed out that the migration has taken place in a crazy-quilt pattern, in which countries both import and export migrant labor. The major exporting countries are Indonesia, Burma, the Philippines, and China; the exporting and importing countries Thailand, Malaysia, South Korea, and Taiwan; and the importers are Japan, Hong Kong, Singapore, and Brunei. A large number of unskilled workers have legally or illegally gone beyond national boundaries. The least developed countries of East Asia have become migrant-exporting countries, and parts of the NIEs and ASEAN are both exporters and importers.

It is worth noting that in the Asian NIEs which have remained in the center among East Asian countries, there is a high degree of domestic education, and there has actually been a "reverse brain drain" in high technology industries since the 1980s. It is well known that the better part of the technical staff working in the Xinzu Science-based Industrial Park in Taiwan are returnees from the United States, where they received their higher education, and in the same way, highly educated returnees from the advanced countries have played an important role in technological accumulation in East Asia (Hirakawa 1994: 48; Harada 1994: 209-10).

This training of capable persons and the flow of highly educated persons into East Asia have created a new structure in the new international division of labor. The NIEs, and especially Singapore and Hong Kong, are assuming the role of regional centers for East Asia, and thus a regional division of labor is appearing (Henderson 1989: 22,54-58).

(2) The Changing Structure and Patterns of East Asian Employment and the Advanced Countries

Employment structures in all the East Asian countries are changing rapidly as a result of the entry into the market of new countries, namely the ASEAN countries, China, Vietnam and so forth, all with export-oriented labor-intensive industries, a phenomenon which began from the second half of the 1980s into the early 1990s. Naturally, the ASEAN countries, China, etc., have developed industries which have been the focus of investments mainly by small-to-medium sized enterprises from Japan and the NIEs.

With regard to Japanese investment, approximately 50% of the total number of foreign investments at the beginning of 1980s were into North America, and 30% into Asia. However, by 1987 74% of the foreign investments were into Asia, and the share increased even further after that year, to 91% in 1995. If we examine the breakdown of investments in Asia in the early 1980s, we find that 51% of the total investments were into the NIEs, 14% into ASEAN (8% into Thailand, 3% into Malaysia, 2% into Indonesia, and 1% into the Philippines). By contrast, in 1991, 11% were into NIEs, 35% into ASEAN (13% into Thailand, 13% into Malaysia, 5% into the Philippines and 3% into Indonesia). But by 1995, the structure had changed once again. In that year, 7% were into NIEs, 13% into ASEAN, and 66% into China alone. Furthermore, a large part of these investments were carried out by small-to-medium sized enterprises (SMEA 1996: 205-7).

South Korea and Taiwan have also increased their foreign investments rapidly since the 1990s. Of Taiwan's total approved foreign direct investments from 1952 to 1995, 82% in cases and 36% in value was into China, and 6% in cases and 20% in value went into the ASEAN region (Republic of China 1995). Of South Korea's cumulative foreign direct investment in value up to 1995, an equal 16% went into the ASEAN region and China, respectively. But roughly 76% of the total investments into Asia were carried out during the 4 years from 1992 to 1995. Furthermore, 76% of the investments into ASEAN were in manufacturing sectors, while the equivalent share in manufacturing in China was 89% (The Bank of Korea 1996). According to statistics on foreign direct investment into China up until 1995, about 60% of the cumulative direct investment in value from 1979 to 1995 came from Hong Kong and Macao, 8% from Taiwan, and 8% from the United States. Foreign direct investment from the NIEs into ASEAN and China has increased dramatically in the 1990s, mainly in manufacturing industries. Therefore, especially in the NIEs countries, there has been a decline in the 1990s in the number of industries which have investments abroad. Let us examine this trend in Hong Kong and South Korea.

In particular, there has been a dramatic decline in labor-intensive industries in Hong Kong and South Korea. In South Korea, the labor force in the garment industry has shrunken by about 32% between 1987 and 1992, and the shoe industry shrank 26% in 1992 compared to the previous year. In Hong Kong, the labor force in manufacturing industries has declined by 40% for the 12 years from 1981 to 1993, owing to relocations of Hong Kong manufacturing industries to the Chinese coastal area, and mainly to Guangdong Province, following China's open-door policy in 1979 (CAW 1995: 21). Cheap and unskilled female workers in South Korea, Hong Kong and other countries been severely affected. Naturally, unskilled workers there have lost jobs.

This sort of labor pattern is now being transferred from the NIEs to the ASEAN countries, China, etc., and the employment of female workers in those areas has increased rapidly. Free trade zones, which lure foreign capital to set up offshore production, have expanded out from the Asian NIEs into ASEAN, China, India, and so forth. In these new locations, the number of young, unmarried, and unskilled female workers has been increasing rapidly.

Some salient features of employment in the manufacturing and service industries in East Asia are 'feminization,' on the one hand, and the casualisation or informalisation of labor, on the other. A research paper issued by the Committee for Asian Women in Hong Kong (CAW) pointed out that casualisation is a new employment pattern which appeared during the last few decades, and which involves part-time work or temporary work. It was adopted by managements in order to 'avoid paying benefits, such as health insurance, maternity leave and paid holidays which are all required by law for full-time workers.'

Thus, 'casualisation is not only a strategy for cheapening the cost of production, but a trend for reconstructing the labor process into a more hierarchical and flexible one in which women workers have little control over production and little bargaining power.' Of course, this sort of change in employment patterns has been seen throughout the world, especially in the 1990s.

In this connection, the work patterns which fall under the category of casualisation include: (a) part time jobs, (b) short-term sub-contracting work, (c) maintaining workers as apprentices or trainees at reduced wages long after they have learned the job, and (d) summer work for students who are paid less than the minimum wage (CAW 1995: 26).

Understandably, such workers, and especially the female workers of this sort, fill a direct buffer role against business fluctuations. In 1998, in South Korea, it is estimated that some 2 million workers will lose their jobs as a result of the Asian currency and financial crises, and that in Thailand 2.5 million workers have already become unemployed as of the end of May 1998 (*Nihon Keizai Shinbun*, 10 June 1998). Of course, there has been a mass discharge of foreign workers in these countries, many of whom have been repatriated.

Incidentally, in advanced countries as well, major changes have taken place in employment patterns. As was mentioned earlier regarding Itoh's 'backwash of capitalism,' working conditions are deteriorating. Even under Japanese style management, where workers were believed to be guaranteed life long employment system and the seniority order system, workers are losing the rights which they once won through the labor movement, and part-time jobs and sub-contracting work, etc., are becoming a generalized phenomenon. Moreover, changing employment patterns in advanced countries are leading managements to come to the conclusion that it is natural to change employment systems.

Conclusion

It would be a mistake to understand East Asia's industrialization and economic growth in the same way as the 'national economies' built in the early 20th century by the advanced capitalist countries, though it is certain that through such successes they have entered the world market and economy. It would also be incorrect to say that as a result of the latest currency and financial crises, the East Asian countries have failed in building the same 'national economies' as were built by the advanced capitalist countries. It is likely that the East Asian experiences represent a new model of development and fluctuation in a new stage of capitalist history. This may be the result of the 'invitation of the world economy.'

In the part of the world economy called East Asia, industrial workers, and especially female workers, have appeared, and employment patterns have developed. Therefore, it is an illusion to see the lack of industrial democracy or 'capitalism without ethics' in East Asia as a transitional phenomena in the early stage of capitalist development. Neither the feminization nor the casualisation of labor that we see in East Asia is a passing phenomena of the transition from backward to advanced capitalist countries. It is rather the salient feature of the current capitalist world economy.

Finally, it is necessary to make efforts to defend industrial democracy and better labor conditions in the advanced capitalist countries, and to also improve the inferior labor conditions in East Asia. There is a need for international cooperation beyond national boundaries to cope with this new stage of the world economy.

Notes

1) In Japanese, 'kaisha' means company, but if one reverses the order of the two characters one gets, 'shakai' meaning 'society,' which then becomes 'shakai-shugi,' or 'socialism.' Baba coined the phrase 'kaisha-shugi' to explain that many Japanese workers and employees work for their company with a feeling of loyalty. In other words, Japanese workers feel that there is a safe and egalitarian atmosphere in their company, and this is one of the important sources of the competitiveness of Japanese companies. Baba recognized a kind of 'socialist' mind in the mood of employees, and developed the notion of 'kaisha-shugi,'(namely 'company-ism') as a term which is not socialism, but somewhat similar to it.
2) In this book, Wallerstein refers to the term 'Korea' several times, but, in these cases, 'Korea' signifies socialist 'North Korea.'
3) Kim Young-Ho explains the technological double-gap model as follows. "Technological double gap model is a basic framework to illustrate the processes of technology transfer and technological development for the developing countries. Double gap is comprised of two gaps: technology transfer gap and technology learning gap. Transfer gap designates technology transfer processes in which obsolete technologies are in general transferred easily and new technologies rarely. It also denotes life cycle of technology. Learning gap means the capability and time required to understand and absorb the transferred technologies." "In many instances in making a negotiation of technology transfer between the advanced countries and the developing countries, the advanced countries doubt developing countries' capabilities of technology learning while the developing countries blame the advanced countries for poor progress in technology transfer. In fact, however, these two different views on technology transfer are not apart.... The advanced countries must shorten transfer gap and the developing countries learning gap" (Kim 1993: 2 & 4).
4) This devaluation of the renminbi vis-à-vis the US dollar did not force exports of Thailand's manufactured goods to stop. Actually Thailand's exports increased in 1994 and even in 1995 despite the fact that China devaluated the exchange rate of the renminbi. However China's devaluation policy was generally seen as a brake on increases in Thai exports.
5) Radelet & Sachs wrote that , "The Southeast Asian currency crises of 1997 are not a sign of the end of Asian growth but rather a recurring ··· if difficult to predict ··· pattern of financial instability that often accompanies rapid economic growth." Asia's economic growth has been achieved by powerful forces of global capitalism despite serious limitations in terms of law, economic structure, and politics. Therefore Asian countries will be able to re-emerge if they can create "systems of governance and law beyond the export platforms that are consistent with the needs of sophisticated, high-income economies" (Radelet & Sachs, 1997: 45-6, 56).

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