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1

Overview

David E. Andersson and Jessie P.H. Poon

In the last two decades, a number of books has emerged in the academic market, explaining, theorizing and even speculating on the rapid growth of the economies in the Asia Pacific.¹ Expositions on the region's 'miracle' countries are now commonplace, with some economists attaching the region's remarkable growth rates to free market policies and prudent macroeconomic management (Corbo, Kruger and Ossa 1985; Kasper 1994). On the other side of the coin, we find state-centered explanations, namely 'development states' being offered by political sociologists (Wade, 1990), buttressed by observations of extensive state intervention and strong government-business cooperation. A third and final academic thrust focused on the cultural values of Asian societies, best embodied in the 'Asian Values' debate (Emmerson, 1995), which originated from the argument that first-tier Asian newly industrializing countries were heavily Confucian in social organization.²

The economic development of the Asia-Pacific countries has attracted widespread attention, mainly because of their curious abilities to maintain high growth rates of over 6 per cent annually for more than thirty years, thereby contradicting normative assertions of worldwide convergence in the history of economic growth (Ito and Krueger, 1995). But as scholars debated over this anomaly, past high growth rates in many countries plummeted in 1997 as financial instability spread throughout the region.

Notwithstanding the convulsions released by monetary disequilibria, as early as 1994, Krugman (1994) had already begun to question the sustainability of the region's high growth rates. In fact, the oft-proclaimed Asia-Pacific century has ignored the geography of the region, juxtaposing dissimilar economic and political systems rather uncritically. Further, while industrial diffusion has clearly occurred, it is far from obvious that the evolving economic and political character of the countries has converged.

On the one hand, many countries in the region remain committed to economic development. Hence China, the Philippines, South Korea, Taiwan and Vietnam are all moving towards freer trade and a greater amenability to foreign direct investment (FDI), albeit from very different starting points. Meanwhile, popular demands are mounting for public-sector provision of costly retirement pensions and health-care systems in low-tax economies such as Hong Kong, Taiwan and the countries of Southeast Asia. There are even indications in some countries that the much-vaunted saving rates are starting to fall. On the other hand, it is becoming increasingly evident that there are two divergent political trends in the the Asia-Pacific region. One trend comprises authoritarian (or illiberal) entrenchment, as seen in the increasingly assertive nationalisms of the governments of China, Malaysia and Singapore. The other conflicting trend is that of growing pluralism and democratization, as exhibited by Japan, South Korea, the Philippines, Taiwan, and Thailand.

This book aims to shed light on the salient features of various transitions taking place in the Asia Pacific. The essays arose from a series of workshops on Asia-Pacific development initiated by the Stockholm-based Institute for Futures Studies. They should be viewed as being concerned with the background to current trends and potential *future* outcomes. We highlight the *interdependence* of economic, political and institutional forces which are likely to reproduce non-uniform responses among the countries; hence the book's emphasis on transitions. Moreover, the interplay of all three realms may well result in conflicting aims while, at other times, acting in concert. In the economic realm, one force is made up of the actions of individual economic actors, resulting in, among other things, entrepreneurship, spontaneous network formation, and cross-border investments. But there is also the effort of governments to spur growth through, for example, development plans, regional cooperation, and industrial parks. It is not automatic that the financial crisis will lead to a diminished level of state intervention uniformly because, in countries such as Singapore, the state continues to play an active role in its industrial and social policies. For this reason, a country's social capabilities (Rowen 1997) are argued to be just as important in assessing the countries' transitions here.

According to North (1994), institutions may be external (rules with formal sanctions, laws, constitutions) or internal (norms of behavior, conventions, self-imposed codes of conduct). Institutions influence economic and political outcomes because of their impacts on incentives, transformation costs and governance structures. The interdependence of

institutions and economic development is perhaps best summarized as the tendency of economic development and industrialization to affect the balance of competing value systems and, additionally, as the effect of institutional systems on economic behavior. But because institutions are not necessarily always socially efficient, we find that transaction costs exist in both Western-style democratic regimes (the Philippines, Thailand, Taiwan and increasingly South Korea) alongside communitarian and authoritarian systems that are heavily influenced by Confucianism (China, Singapore, and to some extent Japan) and Islam (Indonesia, Malaysia). From this vantage point, transitions associated with economic development should be seen as a series of incremental, though not necessarily linear, changes. Each phase of the development process may require new or modified rules of contract and control as older institutions encounter constraints or reach their limits in enforcing political and market agreements.

The book begins with a broad comparison of the region against the economic history of the OECD countries. In Chapter 2, Åke Andersson shows that the high growth rates of East and Southeast Asia should have been expected because the countries are part of the 'fourth-wave' of industrializers in the history of world economic development. Extrapolating from the trends first observed in Europe, he shows that Italy has had a higher long-term growth rate than France, while France, in its turn, has had a higher long-term growth rate than Britain. Similarly, South Korea and Taiwan both have higher growth rates than any European country in the last 30 years, indicating economic advantages in being industrial latecomers.

However, the advantages of being latecomers may have run its course, especially for the most developed countries, in view of the wave of economic and industrial restructuring now taking place in Asia. The rest of the book, which is divided into three parts, examines the form and nature of transitions that Asian countries are likely to experience as they attempt to join the 'Third Industrial Revolution' where previous performances based on producer over consumer interests, cheap and disciplined labor, and paternalistic social and political governance, no longer provide the necessary or sufficient conditions for long-run sustainable growth in the context of increased global interdependencies. Part I, 'Institutional Frameworks', discusses some of the underlying institutional arrangements as well as institutional changes in selected Asia-Pacific countries. Part II, 'Environmental and Economic Constraints', examines the environmental and economic constraints on government policies in the face of changing demographic and economic structures.

Finally in Part III, 'Cross-Border Networks', deals with the various facets of increasing interactions between countries as well as actors in the Asia Pacific.

Institutional frameworks

To the extent that institutions are constructed to help manage, if not overcome, uncertainties and asymmetrical information, they provide a structure for which human interactions can take place whether in the context of a firm, a political organization, or an economic market. Certainly a striking observation of East and Southeast Asia is the existence of implicit contractual agreements between the governments and their citizenries. In Chapter 3, Kurt Lundgren notes that, although lacking the alleged prerequisites for economic growth, China nevertheless has been able to progress rapidly in the last twenty years, underscoring the significance of China's emerging institutions, especially after 1979. China may lack the external institutions that form the cornerstone of Western capitalist systems, designed to achieve reasonable levels of economic efficiency, but its social organization nevertheless provides sufficient incentives for a certain degree of competitive and rational economic behavior. This may be seen, for example, in the development of township and village enterprises, which have been able to introduce some market incentives while being part of the larger state-driven infrastructure.

We could argue that China's top-down social structure may be attributed to the influence of Confucianism historically – where paternalism is encouraged – an explanation that has featured strongly in the socio-political organization of Chinese-dominated societies elsewhere in East Asia. The fourth chapter, 'On Lao-Tzu' by Zhang Wei-bin, however, suggests that East Asian societies do not necessarily have less cultural affinity for individualism than Western societies. Taoism embraces a multiplicity of wisdom that precludes one that is championed by a single authority. This contrasts with Confucianism which provides a framework for social order through its emphasis on familism. Lao-Tzu taught that organizations and external institutions interfered with the responsibility of each individual to herself. Zhang concludes that Lao Tzu's teachings are in fact compatible with the economic system of *laissez faire*.

The influence of non-economic institutions in Asian development is further explored by Martin Beckmann in Chapter 5. Beckmann notes that Western systems of scientific cooperation favor the creation of technological innovations and scientific achievements because the principal

aim in Western scholarship is the production of knowledge where competition for recognition, 'priority' status, and research funds reign. In contrast, traditional Confucian ideals emphasize the consumption of knowledge and a disinterested search for the truth, attainable through the immersion in a canonized body of knowledge. Differences in academic philosophy have resulted in a more productive community of scholars in the West (see also Chapter 19).

Moreover, despite the wave of Western liberal prescriptions for economic recovery in the aftermath of the financial and economic crisis, pluralism is expected to continue to characterize the region. There is no guarantee that all of the countries in the region will travel the same path as Western Europe and North America in their modernization crusade. In Chapter 6, Jan Engberg observes that Communist one-party states, full-fledged democracies, and different authoritarian systems exist side by side in the Asia Pacific. The fact that economic success in Singapore and Malaysia has not led to the flourishing of civil society and pluralism challenges the conventional view that political democratization necessarily accompanies economic development. Hence, despite the fact that governments in the two countries rule on a foundation of public consent, democratic development is argued to be 'illiberal' where the 'rule by law' rather the 'rule of law' reigns.

The rise of political illiberalism alongside sizable economic freedoms in Malaysia, Singapore and possibly China is not only likely to continue to contribute towards regional divergence, but also provides support for distinctive sub-Asian models of development. As Niklas Eklund argues in Chapter 7, the proliferation of growth triangles in Southeast Asia reflects a contradiction between technological and systemic legitimization. Transnational capital flows have been important in the countries of Malaysia and Singapore and, to a lesser extent, in Indonesia. Combining the need of foreign investors for greater efficiency against nascent nation-states' guardedness in sovereignty has led to countries such as Malaysia and Indonesia integrating part of their territories (Johor and Riau Islands) with Singapore in order to realize and enhance subregional divisions of labor. To the extent that such cross-border subnational developments are distinct from supranational developments best seen in the case of the European Union, growth triangles in Southeast Asia constitute an important example of political divergence from the West despite similar desires for greater factor mobility.

The shape of political transitions is therefore unclear in spite of incipient political reforms in Indonesia, South Korea, the Philippines and Thailand. In fact, political transitions are likely to continue to cause

diverging development paths. This is reinforced in David Andersson's comparisons of Taiwan's and Singapore's approaches to land-use controls (Chapter 8). He argues that conventional constructions of economic freedom indices ignore the effect of land-use regulations on opportunities for entrepreneurship, and raises the problem of distortions that such regulations cause to the decentralized market process of continuously evolving land-use patterns. In comparing the two countries, he shows how differences in urban development, which is left to individual economic actors in the case of Taiwan, and to the state in Singapore, can lead to different levels of economic freedom in the market for land, despite similar initial conditions.

Economic and environmental constraints

Institutions exist to reduce transaction costs and their construction entails a learning process (North 1994). Asia-Pacific countries may have benefited from the mistakes of their predecessors as latecomers to the industrialization process, but they are not immune to new mistakes or constraints. Perhaps the most serious potential limits affecting their transitions relate to environmental, economic and social sustainability. In Chapter 9, by extending neoclassical economic theory on natural resource depletion based on Hicks's distinction between flows and stocks, and where the environment is regarded as being a capital stock analogous to man-made capital stock, Finn Førsund shows that, while it may be conceptually possible to derive sustainable development policies from ecological economic models, lack of knowledge about future prices and preferences make them impossible to operationalize for practical purposes. Thus, Førsund suggests using an international standards approach for cross-border environmental problems, which should primarily be concerned with not exceeding 'critical loads'.

Hua Chang-i, in Chapter 10, examines the interrelationships between demographic, ecological and pollution transitions. Based on carbon dioxide emission levels in the countries of India, China, South Korea, and Japan, he shows how pollution increases (decreases) are largely explained by *per capita* incomes, and, to a lesser extent, by the effect of the demographic transition. Perhaps the most important finding of Chang's study is that, in addition to the well-established correlations between demographic, ecological, and pollution factors, emission levels in the four Asian countries are not expected to decrease unless what Chang has called the 'output quality transition' has also occurred.

Undoubtedly, environmental constraints are exacerbated by the lack of coherent regional cooperation in Asia. The Association of Southeast Asian Nations (ASEAN), for instance, had seemed paralyzed by the financial economic problems in Southeast Asia. Similarly, the countries were unable to structure a unified response to serious haze pollution that had plagued the region at the same time. Instead, ASEAN members looked to countries outside of the region for help and money in containing the haze. Clearly, previous emphasis on economic growth has neglected other dimensions of societal development. This is reinforced in Chapter 11 by Mukul Asher who highlights the tendency among Asian policy-makers to ignore social equity issues. In examining social security incomes, he observes that Southeast Asia has, until recently, relied much more on informal support from extended families and local communities than on government programs to finance social security. However, as demographic transition runs its course over the next few decades, and, as these countries undergo rapid urbanization and industrialization, informal channels of social welfare and security may become increasingly less important. Pension funds constitute one of the few important alternative sources of social safety nets for Asian countries, yet Asher's study of the five countries of Indonesia, Malaysia, the Philippines, Singapore and Thailand indicates that these funds have been suffering from low revenue productivity since the 1980s. Asher argues for urgent reforms as these countries move towards publicly mandated provident systems that would enhance their sustainability.

Other potential constraints are further analyzed by Lawrence Klein in Chapter 12. Klein shows how China's open door policy, as well as favorable demographics and macroeconomic policies, have contributed to the country's high growth rates since 1979. At the same time, he also notes problems of sustainability related to wide regional disparities between the coastal and inland areas, and the non-competitiveness of large and inefficient state-owned enterprises. While informal institutions may have contributed to successful economic performance in the past, as Chapter 3 demonstrates, formal institution-building that brings about greater economic transparency is likely to play a more important role in the future.

Cross-border networks

While the first two Parts focus on themes related to institutional settings and economic–environmental constraints, Part III looks at the

emergence of network economies that are shaping capital as well as industrial organization in the region. We view the creation of industrial, as well as knowledge and electronic communication networks, as major forces that will influence Asia Pacific's transitions. One implication of this for the region is that the ability of the countries to position themselves within relevant global or regional networks, or, to create network links between and within themselves, will likely shape economic sustainability in the long run.

In Chapter 13, David Batten begins by illuminating the processes that underlie the formation of human and economic networks in cities. He suggests that the development of an urban economy is difficult to predict: periods of relative stability are interrupted by sudden, and often unexpected, changes. Batten argues that the future development of a city often is contingent on seemingly minor events in the past, which implies that long-term determinism or predictability is unattainable. Such intrinsic unpredictability implies that planning based on optimization is impossible. Cities are theorized to be akin to living organisms whose patterns of development have the character of complex dynamic systems. Moreover, cities co-evolve with other cities. This co-evolution is self-organizing and may produce unexpected outcomes or 'emergent behavior.' Batten concludes that an understanding of self-organizing networks and emergent behavior is necessary if we are to grasp the evolution of urban networks in Asia.

In a sense, Batten's contribution suggests that network formation by individual actors, firms or governments reflects the organization of apparent disorderliness; a means to structure complexities associated with economic performance through their impact on transaction costs and exchanges. Network-building, for instance, is increasingly used by countries in the Asia Pacific to establish rules of cooperative behavior, as seen in the case of the Association of Southeast Asian Nations (ASEAN) which has created numerous dialogue channels within the region such as China, and, outside of the region, with Europe and the United States. In Chapter 14, Poon and Thompson's comparison of trade patterns between Asia and Europe shows how the Asian countries have been adept at maintaining both intra and extra-regional trade links through 'open' regionalism. There is no doubt that countries within the Asia Pacific are becoming more integrated through trade but, even more surprising, is that 'bloc-like' Europe also shares Asia's characteristics of extra-regionalism. Both regions' trade interactions are also found to center around regional nodes, indicating the nodal strength of particular regions which helps them capture the intersecting synergies of multiple economic and industrial networks.

Similarly, by examining the relationship between Japanese foreign direct investment (FDI) and trade in the Asia Pacific, Chapter 15 looks at the impact of increased regional networking between Japanese and other Asian firms, and how these networks have facilitated trade and capital flows in the region. In modeling the determinants of Japanese FDI in the Asia Pacific, Pontus Åberg found the countries of East Asia to be Japan's most 'productive' export markets. Particularly interesting as well is his finding that Australia and New Zealand were able to capture a disproportionate share of outward Japanese FDI between 1990 and 1994.

In addition to macroeconomic trade and investment analyses, Chapters 16 and 17 provide case studies of transition issues in the context of network development in the more developed economies of Hong Kong and Singapore. Both economies are similar in that they are small city-states and are faced with limited factor and market endowments. However, Hong Kong's economic limitation is offset by its proximity and production integration with China, while Singapore has embarked on a deliberate policy of establishing transnational linkages that help extend its hinterland. In the chapter by Edmund Thompson, firm-level evidence of vertical network linkages between garment firms in Hong Kong and their operations in China is provided. Thompson found that traditional factor-costs were much less important explanations for shifting garment production from Hong Kong to Guangdong. Instead, he attributes cross-border firm networks and integration to flexibility, spread, quality control, and avoidance of costly market transactions by Hong Kong's garment firms. In contrast to Hong Kong, where private firms play a more influential role in building cross-border linkages, the state in Singapore has actively cultivated relations with its neighbors that help the country to overcome its size problem. In the face of growing factor scarcity, Janerik Gidlund shows how the Singapore government attempts to reconcile soft authoritarianism with both economic efficiency and the city-state's quest, through industrial parks in Indonesia and China, to be a global business center.

The book begins with Åke Andersson's observation of the important role of transitory variables such as high savings and investment levels in Asia's economic transformation. But, as the title of the book suggests, the region is undergoing transitions and there is no guarantee that traditional factors such as export reliance, business-government cooperation, and paternalistic social policies, will continue to play the roles that they once did in the past. As the world becomes increasingly integrated, the need to create or access technological knowledge becomes important, especially when the social acquisition of knowledge is dynamically irreversible. The final two chapters address this challenge.

Chapter 18 by Kiyoshi Kobayashi suggests that Asia's transitions in the future will be affected by fundamental transformations that are occurring in world logistical networks. As Asian countries become more integrated, development corridors are emerging that will spur the drive for more human contacts. This, in turn, will spawn the construction of communications networks that are likely to enhance the exchange of knowledge within the region. Kobayashi assumes that knowledge is a source of increasing returns, because knowledge generates externalities that enable individuals to be more productive as the aggregate human capital of the environment increases.

Chapter 19 concludes the book with an empirical assessment of the determinants of cross-border knowledge creation and transfers within Asia, and between Asia and the West. South Korea, Taiwan and Thailand appear to have the strongest linkages with the United States, while Hong Kong, Malaysia and Singapore have greater scientific cooperation with English-speaking countries such as the United Kingdom and Australia. Furthermore, cross-border scientific activity is highest in the Asia Pacific when it is conducted with scholars in North America. South Korean scholars, for example, conduct more than three times as much research in science, medicine and engineering with American scholars than they do with scholars from Japan. The level of scientific interactions within Asian countries is relatively low. This is in spite of the fact that gravity-like distance-decay effects are in place, which suggest that the level of scientific interactions between Asia Pacific and the West might have been higher were it not for the barrier of geography.

Together, the authors in the book share a common concern for the structural transformations that the region is likely to face in its imminent economic and political transitions. Two conclusions are noteworthy. First, the region remains sufficiently diverse that processes of convergence and divergence are occurring simultaneously. This is apparent in the chapters on institutional development and approaches to growth, whether in the political or economic arena. Second, while many scholars elsewhere have emphasized a distinctive Asian model of development, certain 'universal' problems, such as those related to environmental sustainability and structural adjustments, are becoming increasingly important, suggesting the need for solutions that are more international in scope, and the establishment of governance systems that reduce the region's institutional weaknesses.

Notes

1. In this book, the economies of Asia Pacific include only countries in East and Southeast Asia.
2. More recently, Fukuyama (1995) has argued that the Japanese and Chinese versions of Confucianism have fundamentally different impacts on economic behavior. Japanese Confucianism implies a much greater degree of national loyalty and generalized social trust, whereas Chinese Confucianism is to a much greater extent familistic. Fukuyama contends that the generalized trust exhibited by Japan makes it more similar to Protestant Western societies than to Chinese societies, with an inclination toward the formation of large-scale private firms. Chinese Confucianism, on the other hand, with its emphasis on familism and personalism, is particularly conducive to the creation of small family businesses. As a consequence, the Chinese share many more traits regarding their economic behavior with Italians than with the Japanese.

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