

# **ASIAN ECONOMIC STRUCTURE IN THE MID-1990s AND THE CHANGES THAT FOLLOWED**

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## **Introduction**

Economic trends in Asia are factors of vital importance to Japan, which is geographically located in East Asia. In fact, close inter-dependent relationships between the economies of Japan and other Asian countries or areas have once again come to be recognized in the dynamic wave of the world economy following the 1980s.

Particularly in recent years, as integration of the European Union proceeded at a faster pace than expected, consummating the single common currency, EURO, effective January 2002, some sources have come to argue that Asia should also pursue a way toward integration as an economic bloc, and not just regional cooperation.<sup>1</sup>

Discussion on whether or not this is correct requires careful analysis of the Asian economic structure, along with a study of the EU's economy. This paper is an approach to such analysis.

### **1. Diversity, a Characteristic of Asian Region**

The most characteristic feature of the EU is the relative homogeneity of its member countries. Although it may be argued whether or not Europe started from the Carolingian Dynasty, the formation of Europe as a region is far more recent than that of Asia, which is beyond comparison. Quite similar characteristics exist, albeit with some exceptions, across the national borders of Europe: Indo-European languages, Christianity, and similar aristocratic and civic cultures are some of these characteristics.

In contrast, the outstanding characteristic of countries in Asia is their extreme diversity. Countries' national territories and populations are one example, with China made up of 10 million square kilometers and 1.3 billion people, down to Singapore, with 600 square kilometers and 4 million people. Languages differ not only from country to country, but countries with several spoken languages (such as China, India, and Indonesia) are rather normal. Needless to say,

**Table 1** Economic Scale of Major Asian Countries or Areas  
(Figures as of 1999)

	Size of Land (10 Thousand km <sup>2</sup> )	Population (Million)	Nominal GDP (Billion US\$)	Real GDP Growth(%)	CPI Increase Ratio(%)
China	960	1,259	997	7.1	-1.4
Rep. of Korea	10	47	407	10.7	0.8
India	328	971	406	5.9	4.7
Taiwan	4	22	289	5.7	0.2
Hong Kong	0.1	7	158	2.9	-4.0
Indonesia	192	204	141	0.8	20.5
Thailand	51	62	124	4.2	0.2
Singapore	0.06	4	85	5.4	0.5
Malaysia	33	23	79	5.4	2.8
Philippines	30	75	74	3.2	6.7
Vietnam	33	77	29	4.8	0.1
North Korea	12	24	16	6.2	n.a.
Myanmar	68	47	5	5.7	18.4
Japan*	38	126	4,347	0.2	-0.3

\* for reference

due to a great diversity of religions, quite a few countries are vexed by religious opposition as political issues within their borders.

Table 1 shows 13 major Asian countries or areas ranked according to nominal GDP (in US dollars) in 1999, a glance at which will explain the near chaotic diversity of Asia. A question is whether it is possible to read between the lines of this chaos, and find the structure of the Asian economy according to stages of development.

## 2. Asian Economic Structure in the Mid-1990s

### —Economic Development after a Flight of Wild Geese

Let us have a brief look back over the history of the Asian economy since the latter half of the 20th century. Following World War II, many Asian countries were freed from the yoke of the colonialism, but for many years after were economically unable to catch up with the pace of growth of advanced countries, and mostly remained within the realm of “developing.” In the 1980s, however, the degree of

**Table 2** Asian Economic Structure in the Mid-1990s

(Figures as of 1996)

	Per Capita GDP (US\$)	Export + Import (Billion US\$)	Real GDP Growth (%)
Rep. of Korea	11,423	280	6.7
Taiwan	12,995	218	6.1
Hong Kong	24,418	379	4.5
Singapore	25,324	256	7.6
Indonesia	1,155	93	7.8
Thailand	3,025	128	5.9
Malaysia	4,757	157	10.0
Philippines	1,165	55	5.8
Vietnam	325	18	9.3
North Korea	989	2	-3.6
Myanmar	111	2	6.4
China	671	290	9.6
India	341	71	7.5
Japan*	36,572	761	5.1

\* for reference

industrialization of each country gathered speed, and some started to “take off” economically.

There are a few reasons for this. The first is that, with the growth of export industries in these countries, supported by ample resources of labor and low-cost raw materials, and led by strong political leadership (so-called development by dictatorship), a virtuous circle arose to result in an expanding domestic market. Meanwhile, supported by the expanding openness tendency of world trade, as symbolized by the WTO, technology transfers, and direct investment from advanced countries—particularly from Japan—the industrial structure has advanced further, presenting another factor for further development. Through such a process, the Asian economy grew to be a multilayer-structured region composed of four large groups.

Table 2 is meant for reading this structure in the tabular statistics. The figures for 1996 marked one of the peaks of Asian economic growth.

In the first group, the countries or areas in which per capita GDP have

exceeded 10,000 US dollars at this point are South Korea, Taiwan, Hong Kong, and Singapore, which correspond, in other words, to the group of countries called “Newly Industrializing Economies (NIES),” also called the “Four Tigers” or “Four Dragons,” because of their great economic strength. They are the most advanced industrialized Asian countries after Japan.

In the second group, the group of countries with the same indicators, ranging from less than 10,000 to 1,000 or more US dollars, include Indonesia, Thailand, Malaysia, and the Philippines. These correspond to the “ASEAN 4,” which are in identical political positions. (There are five original members of ASEAN, but Singapore is grouped as an NIE in this context.)

In the third group, Vietnam, North Korea, and Myanmar, three countries whose volumes of trade are extraordinarily small, constitute a “Closed Economy Group.”

The remaining countries in these groupings are China and India. Both of these are qualified to be future super powers in scale, whether by the standards of population, history, or culture. Also, in the sense of military power including nuclear capability, they are equal to other super powers. In this respect, let us refer to these two countries as “Future Candidates for Super Powers Taking Independent Lines.”

These four groups have aimed at economic take-off one after another, as if to follow the steps of advanced industrialization that Japan attained. With the NIES first, followed by the ASEAN 4, and then China and India following by industrialization after their fashion. Among the closed countries, Vietnam is now at the tail-end of ASEAN. Such a design is a realization of economic development schemes led by industrialization, in line with the so-called “economic development after a flight of wild geese.”<sup>2</sup> The Asian economy in 1996, immediately before the outbreak of the Asian currency crisis in the year after, was beginning to work as a world growth center, thanks to such development.

At the conference held in Dublin, Ireland, in 1996 by the Japan Association of Corporate Executives (Keizai Doyukai) and executives of the European economy, Sir Leon Brittan, a high-ranking official of the EU, told the Japanese representatives—who included myself—that he thought that the East Asian region as the current growth center of the world would further improve its position in the early 21st century, to become a “locomotive of growth for the whole world.” During 1995 and 1996, Asia must have appeared worthy of such praise.

### **3. Some Other Theories about Economic Development Stages and the Asian Economy**

The Petty-Clark Law is well established as a classic theory about economic development stages. It states that from the initial stage of primary industry advantage, mostly in agriculture, the component ratios of secondary and tertiary industries will increase in accordance with economic development.<sup>3</sup> Whether “economic development after a flight of wild geese” fits in with the Petty-Clark Law cannot be said for certain, perhaps due to the diversity of Asia. In the case of the NIES, South Korea and Taiwan developed secondary industries (automotives and electronics), after the model of Japan, while partly due to the geographical handicap of limited land resources, Hong Kong and Singapore jumped to the tertiary industry of finance and trade, skipping the intermediary stage of secondary industry. The second group (Thailand, Malaysia, and Indonesia, but excluding the Philippines) may be called an embodiment of the Petty-Clark Law, in that they focused their efforts on the representative secondary industry of automotives (particularly in the production of national cars, on which much national prestige hinged).

I would now like to briefly refer to other theories on economic development stages. From the Marxist point of view, many analyses have been made on the historical development of the Asian economy, including the argument of the so-called Asian Production System, but most were not congruous with Asian realities. Without waiting for the total collapse of centralized, planned economies—starting with the fall of the Berlin Wall in 1989—the dogmatic Marxist theory of deterministic development stages may be said to have completely lost its validity.<sup>4</sup>

As to the theory of Walt Whitman Rostow,<sup>5</sup> of growth in five stages (of which the third, “take-off,” is the best known), although it fits in well with the advanced countries, it does not go well with Asian countries. The industrial revolution in Asian countries, which had been suppressed during the colonial days, became apparent in a condensed manner between the 1970s and 80s after World War II. Each country experienced its “taking-off,” but in Asia the subsequent shift to periods of maturity and advanced mass consumption have not taken place as the theory expects.

### **4. Recent Changes in the Asian Economic Structure**

What happened to the economies of major Asian countries or areas which, as we have seen, possessed well-ordered structures in the mid-1990s, representing a

clear diagram of economic development after flights of wild geese?

To jump to a conclusion, the economic structure of major Asian countries suffered a breakdown in such diagrams within only three years, falling into a kind of confusion of blurred contours.

In order to see the change, let us examine whether it is possible to separate out similar economic structures, as in Table 2, by taking the same items from that table and inputting the latest statistically available figures of 1999.

First of all, what happened to the NIES 4, selected criterion of 10,000 US dollars or more per capita GDP in 1996, is a dropping-off of South Korea from the first group, ending up short at 8,684 US dollars.

Secondly, among the four countries of ASEAN, with the criterion of per capita GDP between 1,000 or more and less than 10,000 US dollars, Indonesia and the Philippines dropped off. Also, the per capita GDP of Thailand, which had recorded 3,000 US dollars, declined remarkably to below 2,000 US dollars.

Meanwhile, of the future super powers taking independent lines, China's per

**Table 3** Dissolution of Asian Economic Structure in the Late 1990s  
(Figures as of 1999)

	Per Capita GDP (US\$)	Export + Import (Billion US\$)	Real GDP Growth (%)
Rep. of Korea	8,684	265	10.7
Taiwan	13,062	232	5.7
Hong Kong	23,179	353	2.9
Singapore	21,949	226	5.4
Indonesia	690	72	0.8
Thailand	1,996	100	4.2
Malaysia	3,552	150	5.4
Philippines	980	69	3.2
Vietnam	374	23	4.8
North Korea	714	2	6.2
Myanmar	105	3	5.7
China	792	361	7.1
India	416	81	5.9
Japan*	34,387	727	0.2

\* for reference

capita GDP is rapidly rising, to 792 US dollars and approaching the second group. India's figure is also steadily increasing, at about 20 percent over 3 years, to 416 US dollars, even if not comparable to China.

In contrast, the three countries of the closed economy group still have a small volume of trade, and seem to form an unchangeable group. Vietnam alone attained membership to ASEAN, and its external trade is increasing at a fair pace.

In summary, the radical changes in economic structure have taken place in the past three years are characterized by the slump of South Korea, Indonesia, Thailand, and the Philippines, and, in contrast, the remarkable rise of China and India.

## **5. Causes of Change in Economic Structure**

Let us examine the causes which brought about the changes in economic structure, and what they mean.

### *A. The Blow of the Asian Currency Crisis*

Just a look at the names of the four slumping countries mentioned above clearly indicates that a major cause of the change was the Asian currency crisis which took place in July 1997. This is because it was these four countries that suffered most seriously from the impact of the Asian currency crisis.

Table 4 shows how dynamic the evolution of the Asian currency crisis was. The chronology of how the major Asian currencies declined against the US dollar clearly shows how the currency crisis started in Thailand and spread to South Korea, the Philippines, and Indonesia, and then to other countries. At first, it was considered possible to contain the crisis within Thailand alone (in evidence, South Korea and Indonesia initially even participated in the bailout fund for Thailand), but the fall of exchange rates spread like wildfire throughout Asia. Such a decline of exchange rates against the dollar sharply reduced GDPs denominated in dollars, resulting in the fall off of these 4 countries.

Looking from another angle, the last Asian currency crisis may be construed as a pathological phenomenon of "contagion." First, it was huge international speculative capital that played the role of a poisonous "virus," causing the rise of the crisis. There is much evidence that the title role of sniping at the exchange and securities market of Asian countries one after another, bringing them to collapse, was played by such international speculative capital as large hedge funds. However strong the poison of virus may be, though, Asian countries should not have fallen seriously ill if they had been in perfect health. Most had weaknesses of constitution which were not apparent while their economies were in high

**Table 4** How Major Asian Currencies Declined Against US Dollar After the Currency Crisis

	Exchange Rate just before the Crisis (A) (July 1, 1997)	Level of Exchange after the Crisis (% of Fall compared to A)			
		1 Month after	6 Month after	One Year after	Present Level (End August, 2001)
Thailand (Baht)	24.70	-22.7	-48.7	-41.6	-44.2
Rep. of Korea (Won)	887.8	-0.2	-47.6	-35.3	-30.8
Indonesia (Rupiah)	2432	-7.0	-55.7	-83.6	-72.7
Philippines (Peso)	26.40	-9.7	-33.8	-36.7	-48.5
Malaysia (Ringgit)	2.525	-4.3	-34.5	-39.1	-33.6
Singapore (Dollar)	1.430	-3.0	-15.1	-15.4	-18.3
Hong Kong (Dollar)	7.7465	0.0	0.0	0.0	-0.7
Japan (Yen)	114.91	-3.5	-11.6	-16.9	-3.4

growth stages:

- i.* Excessive dependence on foreign capital supported by pegged exchange systems (Thailand, South Korea)
- ii.* Financial systems weakened by “bubbly” expansion (Thailand, South Korea, the Philippines)
- iii.* Nepotism and corruption of top administrations, caused by the lengthy rule of “development by dictatorship,” and the resultant political confusion (Indonesia, the Philippines)

What cannot be overlooked among these is *iii.* nepotism and corruption, in which Indonesia suffered the serious impact of political reform in the form of the collapse of the Suharto administration, after 30 years in power. The Philippines also saw a change of administration take place in no less chaotic fashion, with both countries showing sharp plummets of exchange rates, which continue even now.

In contrast to South Korea, Thailand, Indonesia, and the Philippines, there are countries or areas which somehow absorbed the impact of currency crisis and managed to contain the negative impact within a minimum. The application of countermeasures differs from country to country, to a large degree. Some good examples are Singapore, which took advantage of excellent fundamentals and uti-

lized a model economic policy, and Malaysia, which restored a fixed exchange rate system under strict exchange controls.<sup>6</sup> In Taiwan and Hong Kong, the former was supported by the potential power of small and medium-sized industries, demonstrating its excellent adaptability in the high-tech sector, while the latter was able to defend the exchange system by powerful intervention in its exchange and stock markets. As a result, both Taiwan and Hong Kong may be considered to have overcome the crisis with relatively slight suffering.

*B. Expansion of Chinese Presence and Its Increasing Influence over the Rest of Asia*

The second factor which caused great changes in the economic structure in the middle of the 1990s is the expansion of the economic presence and active role of China, with the largest population in the world.

Before the outbreak of the currency crisis, China was still a developing country with a very high agricultural population, and was marked by a low per capita GDP. China also had the weak points, in the form of the chronic deficits of state-owned companies and the bad loans of financial institutions. The majority's view was that the Chinese yuan would be forced to devalue at the outbreak of crisis.

China promptly declared its policy of maintaining the exchange rate, however, to preserve its prestige as a big power, and by utilizing the exchange control system, which was then still firm, and successfully defended exchange parity to isolate the impact of the currency crisis.<sup>7</sup>

Looking at China's industrial policy, there has been a consistent advancement of the industrial structure (electrics, electronics), leveraged by fiscal expenditures during the last few years, and recently aggressive input of resources into IT-related industries in particular is bearing fruit. In this respect, with the support of a huge population, China's incomparably low-cost labor has been taken advantage of to a great extent. Because of this, while all other Asian countries recorded negative growth in 1998, China alone could maintain 7 percent growth in that year and afterwards, based on increasing exports of highly competitive industrial goods.

In the meantime, using diplomatic pressure on the other Asian countries, China has been increasing its political influence on them over the past few years.

Unlike the history of the NIES, it is worth noting that China, while retaining its backwardness, is taking advantage of that as leverage in strengthening its economic power. The rural agricultural population ratio is still high in China, and continues to be a vast source of low-cost labor, which is being turned into a driving force in its increasing export competitiveness. The co-existence of backwardness and high technology is a source of power for the Chinese economy. To take familiar examples, on the one hand, this is manifest in the flood of incredibly cheap

goods made in China and sold at 100-yen shops in Japan. On the other, in the field of advanced industrial manufacturing, such as electronic components and precision metallic molds, which used to be a monopoly of Japan, China has started to manufacture goods of equal quality. Particularly, this was made possible by transfers to China of highly technical expertise, which would otherwise have been kept within Japan had Japanese companies not been suffering from recession and seeking cost reductions, but were as a result exported in the form of joint ventures or commissioned production in China.

## **6. Current Asian Economy and Its Future Prospects**

The Asian economy, as a whole, recovered from the blow of the currency crisis after muddling down a hard road, and, by 1999, most of countries were back on the growth track. This is in sharp contrast to Japan, which has not yet been able to escape from its prolonged recession in the past ten years or over.

Looking from an angle of economic structure, the economic groupings of the NIES and the ASEAN 4 have already been destroyed, and the boundaries between these two groups and China and India have become unclear, with each country becoming impatient to solve its own issues. Meanwhile, with Hong Kong's return to China, and China's closer approach to ASEAN countries (specifically Thailand), Chinese influence is steadily increasing. Following the Chinese membership in the WTO, expected to be approved in November, the endless expansion of Chinese economic power will be regulated to a certain extent, but the overall direction will not be much affected.

In the meantime, the continuous economic boom of the United States was a huge absorber of export goods from Asian countries, and greatly helped the rapid economic development of Asia in the first half of the 1990s, as well as its recovery from the currency crisis. The US economy is now facing a serious downside risk, however, aggravated by the vicious terrorist attacks on the US. This throws a dark shadow on the future of not only the Asian economy, but also the global economy, including Europe and Japan. In this respect, we must say that the future of the Asian economy has become quite opaque.

Japan, meanwhile, is distressed with its own political and economic structural reform, and a contradictory target in the short-term perspective of escaping from recession. Even in the IT industry, which Japan is good at, the potential competitiveness of China and India has come close to threatening. It has become urgent that Japan to make sure its presence in the Asian economy, by making the most of its remaining technological and financial advantages, and by attaining once again

a standard of industrial technology unrivaled by other Asian countries.

**Notes:**

- 1 A comparatively early work on this point is: Kan, Shi Yu; *Economic Interdependence in the Asia-Pacific Region: Towards a Yen Bloc*; Routledge, 1994. For a most recent salient advocacy: Murase, Tetsuji; “*ASIA Antei Tsūkaken*” (Stable Currency Zone in Asia); Keisō Shobō, 2000.
- 2 Kojima, Kiyoshi; “*Ōyō Kokusai Keizaigaku*” (Applied International Economics); Bunshindo, 1994.
- 3 Clark, Colin; *The Conditions of Economic Progress*; Macmillan, 1951.
- 4 These Marxists’ arguments over economic development stages were originated from Marx, Karl; *Das Kapital; Erster Band*, 1867.
- 5 Rostow, Walt Whitman; *The Stages of Economic Growth*; Cambridge University Press, 1960.
- 6 Wee, Victor, et al; *Structural Aspects of the East Asian Crisis*; OECD Centre for Co-operation with Non-Members, 1999.
- 7 Behraves, et al; *Asia and the Global Crisis*, Chapter 5; OECD, 1999.

**References:**

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- (1) Oshima, Yoichi; “*ASIA Keizai Nyūmon*” (Introduction to the Asian Economy); Tōyō Keizai Shimpōsha, 1997
- (2) Krugman, Paul; “*The Myth of the Asia’s Miracle*”, *Foreign Affairs*; Nov., Dec., 1994
- (3) Harrigan, Francis, et al; *The Future of Asia in the World Economy*; Development Centre, OECD, 1998
- (4) Study Group on Fiscal and Monetary Policies of East Asian Countries; “*ASEAN 4 no Kinyū to Zaisei no Ayumi*” (Monetary and Fiscal Development of the ASEAN 4); Ministry of Finance of Japan, 1998
- (5) Research Department of the Bank of Tokyo-Mitsubishi; “*ASIA Keizai Kinyū no Saisei*” (Resurrection of Asian Economy and Finance); Tōyō Keizai Shimpōsha, 1999
- (6) International Monetary Fund; *International Financial Statistics*
- (7) The World Bank; *Global Development Finance*
- (8) JETRO; “*JETRO Bōeki Hakusho 2000*” (White Paper on World Trade 2000)