

East Asia: From Industrialization to
Regional Integration

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Summary

The East Asian economic crisis of 1997-98 is a decisive moment in that it led to a radical change of view concerning East Asian economies. Before the crisis, almost all economic indicators were in favor of East Asia. It was especially the force of the market mechanism that was considered the motor for a high pace of growth. It seemed to be general conclusion of the economic opinion. There were analyses on the economic thought level to reveal different forms of capitalism: western capitalism, East Asian capitalism, Japanese capitalism.... Then after the crisis, all these views seem to be denied. Today, we must put a halt to crony capitalism and depart from Anglo-Saxon type capitalism, argued the international economic organizations. We can legitimately ask what this drastic change of view means. Inspired by the *Régulation* approach, we investigate the following topics:

1. Economic and social transformation of East Asia
2. To the formation of new middle class and social welfare policy
3. Chinese economy- *régulation* by rupture and continuity
4. Lessons from the long span of East Asian history
5. What is the profile and perspective now ?

Along with this investigation, we take into consideration the regional economic integration paradigm in East Asia. When we regard the intensive production network in manufacture in East Asia, we cannot deny the potential of regionalization. After a comparative analysis with the EU, we can understand some important messages from the EU, which is completely autonomous from East Asian regionalization.

Keywords : *régulation*, East Asia, industrialization, regionalization, wage-labor nexus

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Introduction

The object of this chapter is to offer the clear cut image of East Asia(1) from the *Régulation* approach. It constitutes one of the applications of this approach. Our analysis doesn't focus on purely methodological consideration. Our interest consists of the possibility of applying this approach to East Asian economies, non western capitalism. We would like to know what would be the conceptual discovery of East Asian economies by following this approach.

Everybody knows the importance of multinational enterprises network within East Asian economic integration. We know also that the state had the initiative to formulate the authoritarian development regime in these countries. This type of analysis is commonly accepted and isn't incorrect. But if we change the analytic point of view, we could understand the pertinence of the wage-labor nexus ("rapport salarial")(2) in East Asia. That is to say, we will analyze the *régulation* and crisis of the contradictions of modern capitalism. In this methodology, the wage-labor nexus is considered as the crystallization of the social forms ; capital concurrence, money and finance, the state and international regime. It seems evident that the way in which the workers (white collar and blue collar) are integrated in the market economy and capitalist economy is deeply affected by social forms. Here we apply the wage labor nexus in a relationship that covers the workers' organization in factories or in office and also the workers' general consumption patterns. So it is a widespread concept. The major results of this approach show : the wage-labor nexus could take a different form depending on time and area. This was the result of the research on the western capitalism by the *régulation* approach. What about the wage-labor nexus in East Asia ? For this point, we consider firstly the *régulation* of East Asian industrialization.

I *Régulation* of industrialization in East Asia

The wave of industrialization

The first major image of the industrialization is the generally linear evolution in East Asia.

Fig.1 Rate of Industrialization in East Asia (1950-96)

The rate of industrialization is measured by manufactured production/GDP in real term and factor cost base in Fig.1. Fig.1 shows that Japanese industrialization attained the top level of about 40% during the early 1970s. After this period, Japan moved towards a more service-oriented economy. Consequently, at the close of the 1990s, the Japanese rate of industrialization dropped to about 30%. Concerning East Asian countries, there are three groups in Fig 1. For the four Asian dragons, the trajectory is similar.

Hong Kong arrived at more than 30% level in the 1970s, but passed drastically to a soft economy. Contrarily, Singapore maintained the industrial dynamic almost constantly after the 1970's, Taiwan and South Korea took a similar trajectory. But the pace of the industrialization is higher in the early 1970s, and by the end of the 1990's these countries marked the same level of industrialization. Outside of the first group, the second group of countries can be characterized by a slow level of industrialization. Especially Thailand and Malaysia mark the similar curve of industrialization from very a low level to attain a level of more than 30% at the end of the 1990's. The tendencies of the Philippines and Indonesia contrast sharply. The Philippines attained a high level from 1950 to 1970 but could not maintain the same level for the next 30 years. Indonesia accelerated the tempo only after 1980, and reached the same level of the Philippines towards the end of the 1990's. It is evident that these countries' performance is clearly distinct from the third group in the Fig.1. India, Pakistan and Bangladesh have evolved very slowly with some ups and downs but could not attain the consistent growth of the first and second group. We can speak of the diffusion of industrialization for the 1st and 2nd countries. After this period, India could realize the rapid industrialization in 1990's; the liberal politic of Indian government met with financial globalization and ITT revolution. Once more, this event indicates the importance of the "strategic area" of the industrialization. From simple periphery software production of computer industry to higher knowledge industry, Indian economy continues to show its dynamism. Its mortar depends now more high intellectual level of this people than low cost of labor power. After all, India like China constitutes great power in Asian configuration of social-economic relations.

Fig.2 Industrial Export in East Asia (1950-96)

The wave of catch-up process

This diffusion is also verified in Fig.2. From 1950 Japan has maintained a consistently high level of industrial exports. Catching up to the Japanese model, the 4 dragon countries evolved very rapidly to the 90% level. After these countries, the third group caught up and Thailand and Malaysia marked 79-80% level by the end of the 1990's. This type of catch-up phenomenon is verified further by the ratio of machinery and equipment to total exports. Among the four dragons, Singapore marked the top level for the last 10 to 15 years. In the third group, Thailand and Malaysia have evolved similarly from the early 1990s. Basically, there are 3 groups of different speeds of industrialization and the effects of the homogenization are remarkable. It is what we regard on the macro level.

Fig. 3 International competitive power of textile product(1965-95)

The stratified international division of labor

Fig.3 indicates the evolution of the international concurrence index (The international concurrence index = $E_i - M_i / E_i + M_i$. E_i means the total export of the product i by the concerned country. M_i means the total import of the product i by the concerned country). When the index becomes positive, the competitive power of this industry is recognized at the world level. Fig.3 shows a clear shift of the competitive power of Japan towards the three dragons. There is also a shift from the dragons to ASEAN group. For the chemical sector, Japanese competitive power is consistently under the USA level. The Japanese chemical industry has taken a minor position within international competition. But the catch-up process is very clear in other East Asian countries. This is illustrated by the textile sector (Fig. 3). This figure confirms the high speed of catch-up by the ASEAN group. Taiwan and South Korea themselves lost the relative competitive power after 1980-85. The region faces of an international division of labor. For example, if A, B and C signify the industrial level of evolution from simple to complicated product, then we can see the following image. Japan begins the fabrication of A. The 4 dragons specialize in the intermediate product B and catch up to the A product. Lastly, the ASEAN group specializes in the 3d product C and would catch up to product B. Therefore, there is a permanent evolution in this international division of labor. This is an especially dynamic process. Lastly, we can indicate the evolution of the labor concentrated industries of East Asian countries.

Differences in industrialization process between Japan and Asian NIEs

As a number of authors have noted, the industrialization in South Korea and Taiwan was marked by massive export of manufactures and by the growing import of intermediate goods and machinery, and thus giving rise to dependence on countries supplying capital goods. If this kind of industrialization is compared with prewar Japan, the links between the global economic system and the overall strategic approach appear to be very different.

Compared Industrialization

The contrast is clear : before the war, Japan was progressively able to substitute domestic products for the import of machinery and industrial goods. By contrast, in postwar Korea and Taiwan, relatively little progress was made in replacing the import of machine tools through domestic production. There were two reasons for this. First, the international division of labor changed fundamentally after the war, when the industrialization of the Korea and Taiwan was characterized by the speed of the process (see Fig. 4).

Fig.4 Contrasting processes of industrialization

---- South Korea, Taiwan and Japan---

Second, it was impossible for Japan to import investment goods before World War II. Before the war, the industrial production had virtually been monopolized by the advanced economies in the world market and the countries like Japan had little option but to adopt an import-substitution strategy. Accordingly, the Japanese government launched a nationalistic campaign to buy domestic goods. Once tested in the home market, products were then put on sale in Japanese colonial markets in Asia. Japan had to compete against all kinds of industrial products. By contrast, since the end of the 1960s, developing countries have become part of the manufacturing base of advanced countries. Indeed, between 1970 and 1985, the share of world exports accounted for by developing economies steadily increased for products such as electronic goods and TVs. Even taking account of the differences in underlying conditions, the export didn't play the same role in Japanese and South Korean or Taiwanese industrialization. In prewar Japan, the import-substitution was pursued as far as it could be taken (Takamatsu, 1990). For Korea and Taiwan, it remained partial; the export-led growth strategy was implemented without a corresponding substitution of the import of investment goods. The point isn't to emphasize the industrial superiority of Japan relative to its neighbors, but to illustrate how the policy has constrained the South Korean and Taiwanese economy recently. It's a question of the dependency of the industrial structure in these countries, either to Japan or the USA. In other words, Korea and Taiwan have the common difficulty of producing investment goods.

Shift of the economic dynamic

Next will be a contrast between the Asia-Pacific zone and the Atlantic zone. The latter was the center of world economic development supporting European and American growth for the 19th and 20th centuries. But from 1970, the Asia-Pacific zone has become the center of world economy and commerce. In 1950, USA (27%), Europe (24%) provided more than half of the world's GDP. In 1998, the composition of world GDP consisted of East Asia (26%), USA (22%) and Europe (18%) (Sugihara, 2003). This development in the Asia-Pacific zone isn't the result of the separate developments in each country, but the dynamic of the unified power of the region, says Sugihara. This dynamic is the consequence of the traffic and commercial revolution which stimulated economic relations between the two sides of the Pacific. What reasons explain this transfer of the world economic center from the Atlantic to the Pacific? Why did this change occur between 1960 and 1980?

The American postwar strategy consisted in supporting East Asian economies in

order to compete with the socialist countries. This was a Cold War side effect. Japan and other specified East Asian countries were completely integrated in this strategy. There was no competitive risk for the USA; the American level of industry was far superior to other economies. Also, East Asian economies had good “primary conditions” for development; the labor concentrated industrialization beginning before the WWII. There would be so probably the continuity of the industrialization between prewar and postwar East Asia.

The Intra-Asian Commerce

Sugihara’s point of view explains how East Asian economies developed, and how the roles of Japan and USA became divided. Japan was specialized in civil industry development and the USA in high-tech military industrialization. Japan also developed the resources economizing technology. This division of labor was enlarged at the East Asian level. It was the beginning of the intra-East Asian commerce. This permitted the recent “flying geese development” of East Asian countries. The rule of this zone is based on the complication of the manufacturing structure; from simple to advanced industry, from simple concentrated labor to complicated labor and further technologically concentrated industries. There is a complementary relation. If USA specialized in the military industry for the Cold War, East Asia specialized in the civil industry for the economic growth. Finally, this East Asian economic power in the civil industry obliged the USA to change its growth strategy from manufacturing to finance-led development in the period 1980-90. The 1997-98 crisis in East Asia meant it was necessary to build up the financial network in Asia to link the Asian and American finance sectors. Therefore, East Asia’s industrialization was determined by the historical path dependency. But we can ask why “primary conditions” had existed in East Asia. In other words, why was Asian industrialization specialized in manufacturing and labor-concentrated industries? Asia had a large population in the 19th century, but land and natural resources were scarce, argues Sugihara. This is the difference between the Pacific and the Atlantic world. In the Atlantic world, industrialization was characterized by resources and capital-intensive industries such as heavy industry, and the petrol-chemical industry. The Pacific world had its industrial structure unchanged both before and after WWII. Of the Asian-Pacific countries, labor-intensive industries first developed in Japan. With the development of Japanese industrial structure, the wave of labor-intensive industrial development shifted in the Asian world, especially after WWII. This has been noted previously. The process began with the Asian export of labor-intensive industrial goods such as textiles, apparel, electrical goods and automobiles to the American market in the 1960s. These goods all have short product

cycles and marketing is very important. The same is true for the machine industry. After these developments, the Asia-Pacific world became a net exporter of industrial goods and the Atlantic world became a net importer of primary goods. If this analysis is pertinent, we could repeat the importance of intra-Asian commerce.

Note that the development of Asian world wasn't simply trying to catch-up with developed countries after WWII. Inside the region it had the dynamic of a regional division of labor. Asian industrialization was achieved with relatively little investment in the social infrastructure in order to economize capital. This was the necessity of the late comers' industrialization in East Asia. There was no time to waste to reach the industrialization level of the developed countries. This was the "compressed" or "telescoping" industrialization(Okawa, 1976,1978). This feature was combined with the generous investment in human capital, which was the key to the East Asian miracle. Sugihara contextually places East Asia in the world configuration. From this point of view, the character of the East Asian consumption revolution proceeded as follows. First was the relatively cheap investment in the social infrastructure because of the compressed industrialization. The second stage brought a very strong popular demand for the new electronic goods. These products really represented modern society. But thirdly, the new goods were transformed for domestic needs. This spurred the development of the domestic manufacturing. The final stage is a fusion of western and domestic civilization.

So without copying western-style consumption trends and also without following the anti-modern, anti-consumption movement, the Asian world has developed its own unique "popular consumption society" formed by balancing the two civilizations.

Some nuances are necessary for this evaluation of the East Asian consumption society. Nevertheless, the diffusion of new technology and new goods requires the adaptation of original western technology to domestic needs. It was also the case of Japanese industrialization. Certainly, as the author of intra-Asian commerce indicates the importance of the global configuration, it is important to examine East Asia from an overall perspective. But this method must be combined with an internal analysis of each country.

At this stage of the analysis, we can confirm that the *régulation* of the industrialization process should be analyzed from the following point of view. The catch-up process was real in East Asia. At the same time, this process was deeply integrated in the determinate configuration in time and area.

Types of crisis

Keeping in mind the lesson learned from historical research, next will be an

analysis of the crisis in East Asian development. We have seen the East Asian growth trajectory in a linear form. But this doesn't mean that there was no crisis in the *régulation* process of East Asian industrialization. By following the evolution of the GDP growth rate, we can distinguish certain moments of crisis in the South Korean economy. They occurred in the middle 1970s, at the beginning of the 1980's and 1990's. These crises were all considered as small crises according to the *Régulation* approach. A small crisis is classified as a crisis in which a contradiction within the capitalist accumulation is manifested within the actual framework of the *Régulation*. This type of crisis can be dealt with without transforming the fundamental sides of the social reform.

Small crises in Korea

One example occurred in the mid-1970s, Korea was faced with the necessity of transformation in industrial structure. Because of an increase in the Korean wage level, the industrial structure shifted from a labor-intensive sector to heavy and chemical industrial sector. This meant Korea began to lose its competitive power in textile products to other ASEAN nations. It occurred at the epoch when the *chaebols* kept the great dynamic and realized the overproduction investment supported with government aid. Korea's recovery process is well-known. It should be noted that the so called export-led strategy isn't precise, because the Korean government introduced a double strategy of import-substitution and export-led policy. The process begins with the import of the final product. After the production of this good by domestic enterprises, the export begins. This began a cycle of import-substitution, domestic production and export. The government decided to give high priority to rapid growth, while the balance of trade and inflation were ignored. The oil shock caused the serious damage by deteriorating the macro economic balance in Korea. The reaction to the oil shock led to a combination of three policies : devaluation of the Won, a decrease in the interest rate and growth of foreign direct investment.

After this success, Korean economy had a second minor crisis in 1980. The GDP growth rate became negative (= -3.7% in 1980) and the accumulated debt was 27 million dollars. The debt service ratio fluctuated between 13.8% and 18.5%, which was at a critical level. Finally, the inflation rate reached 28.8 %. The government reaction was in line with the past strategy. In order to transform the high-tech industry, the government decided to limit fiscal aid only to selected firms, which is known as the growth privilege policy. This audacious policy miraculously succeeded. The international consensus was in favor of this country. The *kamikaze* blew(oil price decrease, appreciation of yen, dollar and depreciation of won).

After this crisis, Korean macro economy begun to enter into a mature age. For example, in 1983, the government policy priority changed from growth rate to inflation stability. In this context, in the beginning of the 1990s, Korean economy was faced to the important macro economy transformation. The policy priority was focused on domestic market-driven economy. That meant the macro economic policy changed from the export-led type. The government was conscious of the limits of a government driven-economy. That also meant also that South Korea had evolved to a market-driven economy. This type of transformation was never completely smoother or easy. So, this brought a great economic crisis in South Korea. This transition led to the really great crisis of 1997-98. Before analyzing the great crisis of 1997-98, we would like to examine the *régulation* process of South Korean and Taiwanese industrialization.

Contrasting two dragons---South Korea and Taiwan

Fig. 5 Contrasting Asian NICs ---South Korea and Taiwan

The four Asian NIEs are by no means the same. Hong Kong and Singapore are city-states and have the specific features of such : no primary sector, specialization in R&D services and finance. On the other hand, South Korea and Taiwan, though still divided by conflict, retain the macro economic coherence. From the interest of the *Régulation* approach, it is necessary to focus on the mechanism of development. These two economies differ in a number of respects as shown in Fig.5.

The export-led growth, but...

Although they are both characterized by the export-led growth, their developmental patterns are significantly different. This suggests that it is difficult to treat them as if they were a single, homogeneous block or single East Asian development model. The starting points were very different (Hattori & Sato, 1996). After being devastated by the war, South Korea was almost deprived of basic materials and social conditions to initiate economic take off. Taiwan, on the other hand, with its rich and developed agricultural sector, continued its economic stability after the liberalization.

Many divergences

As regards the apparatus of the state, it was invented by the political leaders in South Korea and in Taiwan, where it had been transferred from mainland China. This difference of the starting point of the state was different in other aspects as well. In Korea, the coup d'Etat in 1961 marked the arrival of a strong political leader who would govern for the following two decades. The combination of the Cold War and the economic race at the world dimension meant that the state was legitimated by the performance of its long-term macro economy. This was the major aspect of compressed industrialization, which contrasted with western industrialization. In Taiwan, the

political regime of Chiang Kai-Shek used the large public enterprises in heavy industry as its economic base. The major posts of these enterprises were dominated by the political party in power, the Kuomintang. These large public sectors played an important role in the developmental stages of the industrial process. However, these sectors became inefficient because of the absence of competition. Their increasing decline contrasts with the dynamics of Taiwanese SME.

So far as the economic policy is concerned, the planning worked well in Korea, while it was used more as a point of reference in Taiwan. A common feature of both countries was that they had just one party in power until the mid-1980s. However, the established systems were very different in a number of respects between the countries. The administration was divided between central and regional leadership in Taiwan. During the long-lasting siege, opposition to the state was more subdued in Korea. In critical periods, there was social opposition to the regime in power. In this regard, the presidential elections in 1971 seem to have been a turning-point in Korean history. Though the outgoing president was re-elected, the result of the election was very tight. The opposition candidate made himself popular by advocating political freedom as well as an improvement in living standards. Instead of making society more open and less authoritarian, however, the re-elected president reinforced the repressive nature of the state and accelerated the economic construction in the face of the socialist economic development in North Korea which for him represented the real threat. The emergence of the consumer society in this country accompanied by the political freedom had to wait another ten or fifteen years. Thirty years after the presidential elections, Kim Dae-Jung, ex-opposition candidate, would take the power in the serious period of the after crisis of 1997.

As regards as the structure of the economy, it is well known that South Korea is characterized by the large corporations (*chaebols*) promoting the aggressive strategies and the small dynamic firms predominate in Taiwan. This contrast is reflected in the structure of industry. In machine tools, South Korea firms developed the domestic market before embarking on exports and the production took place within the big companies. In Taiwan, the small firms engaged in export from the outset and the production is spread across a number of enterprises. Indeed, it is the network of the SME in Taiwan which is at the root of the efficiency and dynamism of the economy. This contrast in the industrial structure explains the difference in specialization between the two countries “IC in South Korea and PC’s in Taiwan”.

Korean style of wage-labor nexus

We could also indicate the difference of the wage-labor nexus (“rapport salarial”)

beyond the static distinction of the Fig. 5. That is to say that over the many differences in the Fig. 5 there would be the fundamental distinctive point. If we schematize the evolution of the wage formation in Korea, we would have the following explication. At the beginning of the process, the labor power's representation was excluded by the government. The state had as the social partner only the *chaebol*. For the macro economic control, the state dominated the money and was financed by the system of the indirect finance. So, between the state and the *chaebol*, existed a deep, confident relationship. This confidence was very useful in order to complete the audacious investment program. Additionally, all the micro or meso level institution systems were built in. So it realized the hard control of the macro economic factors for longtime. The South Korean economy was faced with a Louis type of transformation at the beginning of the 1980s. So in this period, the combination of the state and the big companies was almost absolute and it was well-adapted for the compressed industrialization. Nevertheless, the success of the industrialization gave birth to the crisis, if we follow the intuition of the *Régulation* approach. This type of *régulation* excluded two major social partners : workers and stockholders. When the macro economy was still small during the take-off period, this exclusion didn't matter. But as the national economy became important, this exclusion gradually handicapped the national economy. At first, the workers allowed the state to exercise the authoritarian development for over thirty years. There was an implicit compromise between the state and workers.

The Implicit Compromise in question

This compromise was based on a high level of growth. This condition was indispensable for the job creation in the manufacturing sector. But once South Korea attained the Louis type of transition, this compromise became difficult to keep. It led to a change in the workers' needs for the state. They expected not only the job creation but also for their other material needs to be met and the workers sought to be considered as social partners in the market system and capitalist society. This social need was stronger than material demand. Statistically, we can confirm this point. The evolution of the real salary is very specific in South Korea(Hattori et al, 2001). Until 1980s, the curve had been stagnant for 30 years. It illustrated the implicit compromise between workers and the state, realized in the job creation. But after this period, this curve increased suddenly and rapidly, as if to take back the long-time stagnation. This sudden increase was specific to Korea, because the wage increase surpassed the labor productivity rate in Korea and also exceeded Taiwanese manufacturers' salary evolution. This evolution rose to a level which aggravated the profit sharing for the *chaebol* in the 1990s. We could also understand the tight relationship which we could see in the

capital-labor relations in Korea. In other words, the capitalist has the difficulty of integrating the labor movement into the *régulation* process. He was still constrained by the past burden. This is the “trap of the developmentalism” (Ikeo als., 2001).

Taiwanese Social Pivot

This type of the labor compromise didn't exist in Taiwan. The labor movement was integrated in the development process from the beginning. This is the fundamental difference with the Korean wage-labor nexus. But this doesn't mean that the Taiwanese labor is integrated in the economy as in the western countries. In Taiwan, big enterprises were dominated by people from outside, and the workers after certain age were required to leave the enterprises and became small patrons. This socially upward movement of workers tends to minimize the labor movement role. Here we are faced to the social situation unique to Taiwan: social opposition is represented by the conflict between insiders and people from outside of the province. In Korea the state had excluded the workers from the social *régulation* process for many years, while in Taiwan, the state didn't opt to control different social interests. Taiwan's state was merely legitimated by the balance of power of outsiders and insiders of the province.

Concerning the Taiwanese wage formation, statistics indicate that a clear increase of wages occurred in the mid- 1980s. But the increase was very gradual. From this point of view, the profit-wage sharing was reasonable and contributed to macro economic stability in Taiwan.

At this stage, then, we can identify two types of wage-labor nexus configuration. One is characterized by tight capital-labor relations and the other as flexible capital-labor relations.

II To the Formation of the new middle class and the social welfare policy

The preceding analysis permits us to present different types of the wage-labor relations in East Asia. One of the major points to investigate is to determine how the middle class exists in East Asia. When we remember that the fordist regime of accumulation was based on a solid middle class which propelled the “golden age of the capitalism” in the west from 1950-75, we can then evaluate the importance of this question. It is useless to merely label the simple East Asian model. As in the case of the wage formation, the variety of the middle class matters.

Two types of new middle class

Specially, we could note at least two types of middle class formation(Hattori et al 2002). One type has the feature of freshness of the middle class in Korea and Taiwan. The other type is characterized by the relative isolation of the new middle class as

shown in the Philippines and Thailand. Of course, we could say that these types can coexist in the same country. As previously mentioned, East Asian industrialization was a compressed process. This aspect also influenced the formation of the new middle class. Because of the rapid development, the parents of the new middle stratum (white collar, finance managers, traders, liberal professions, engineers, managers etc.) continue to live in the rural region. The new middle class in the urban region keep very strong relations with their rural parents. This constitutes a difference from the middle class formation in the west, where the middle class evolved over a two century time frame. The middle class in East Asia is called “new” because its social promotion is relatively recent. So the social class consciousness of the middle class is relatively fragile in East Asia.

New and old middle class in Korea

More concretely, the new middle stratum composed of white collar university graduates increased from 6.6% in 1960 to 19.8% in 1990 (Hattori et al, 2002). Simultaneously, the old middle stratum composed of independent workers or small entrepreneurs without higher education increased in the same period from 13.0% to 19.8%. The total of the middle class(old and new middle strata) constituted about 40%, which is slightly larger than the labor class (34.7% in 1990). We should take into consideration this aggregation. With about 40% of the active population, the final consumption of the middle class becomes very important. If we examine the psychological aspect, we could note that about half of the workers and farmers think that they are in the “middle class” in Korea. The criteria of the middle class is diverse. If the middle class consumption is measured by the purchase of consumer durable goods, the level of the diffusion is very high.

Between the new and old middle class in Korea, there exists a solid scholastic barrier. A university diploma determines the social career which makes the social strong distinction between white collar and blue collar. In general, there are few passages from the latter to the former. The consequence is that after the certain age, the blue collar workers could become independent. But they couldn't establish their small enterprises in the manufacturing sector where the *chaebol* dominate. So, they can become the patrons in the service. The distinction between white and blue collar is transposed so in the opposition of new and old middle class. Parents recognized the benefits of education, and it followed that education investment becomes the major preoccupation of the parents. Another concern is the topic of housing and land distribution. The rapid manufacturing wage increases in the 1980 was largely offset by speculative real estates price. There is also the inequality of the land propriety : 90% of

the private land holdings are in the hands of the richest 25% (Minami et al, 1999). Education and housing are two major issues for the middle class.

The middle class in Thailand

The other type of the new middle class is seen in Thailand and the Philippines. In these countries, in spite of the industrialization process, the primary sector still occupies a large part of the active population, 52.0 % (45% in 1997) in Thailand and 44.1 % in the Philippines in 1995. The primary sector lost its importance for industrial production but remains a major social group. In these countries, centralized industrialization occurred. The development was concentrated around the capital city area. This resulted in a strong inequality in regional development. In Thailand, for example, the urban elite class was formed in Bangkok. This highly educated social group generally has the experience of the study training in Anglo-Saxon countries resulting in jobs in the service sector, banking, insurance, finance. We can note that this group cut its relation with rural areas, which is contrary to the South Korean or Taiwanese middle class. In this sense, there is a reproduction of the middle class by generation in city areas. In major industrial sectors, the production from the capital region accounts for 50-70% of total GDP. Additionally, in the capital region, we could observe the net increase of the new middle stratum. The group of specialized engineers passed from 6.2% in 1970 to 16.2% in 2000 in Thailand. From 1960 to 1995, the new middle stratum increased from 2.6% to 12.1% of the total working population(Hattori et al, 2002). 2.4 million persons joined the new middle class. The social criteria of the new middle class consists of a high level education investment, such as in Korea. This structure results in a very competitive educational environment.

Consumption Society in East Asia

We can present East Asia as a consumption society. If the revenue level of the middle class is determined by the potential to purchase a car, the statistics present us with a total middle class of 140 million(Jetro, 2003). This total is composed of 81 million NIES (6.72 million in Hong Kong, 4 .13 million in Singapore, 22.52 million in Taiwan and 47.34 million in South Korea), 18.1 million people in ASEAN (5 .7 million in Malaysia, 25% of the total families, 4.8 million in Thailand, 8% of the total families), and 40.9 million in the urban China, 10% of the total families. This middle class is increasing.

The new middle class exists in East Asia, but it is only 10% of the total population. This class has been increasing at a very high speed but still doesn't constitute the majority in any country. What is important is the fact this new class exists and is crossing borders. Despite being a minority, this class exists on a large scale, consisting of over 100 million. One part of the upper class of the future East Asia society would be

supported by this group. Simultaneously, we note that this class is composed of traditional fordist professions : skilled workers, white collar, as well as post-fordist type professions : finance trader, liberal professions. It means also that this new class includes fordist stability but also post-fordist instability. This mixed aspect is truly a characteristic of East Asia.

Fig. 6 Middle class in East Asia

	1970	1980	1990
NIES	formation	growth	enlargement
ASEAN		formation	growth
China(coast region)			formation

Social Welfare Policy in East Asia

Social Welfare is a very hot issue for the *Régulation* Approach. It is directly integrated in the *Régulation* methodology to clarify the welfare state of developed countries. In addition, the welfare policy is analyzed in the wage-labor nexus in relation to state intervention. This issue is the capstone to our research program. Already the typology of the welfare state has been presented by B.Theret (1997). He stresses why it is important to “situate the national system of social security in the social system and compare it internationally. The simple comparison of the national index doesn’t make sense”(Theret 1999). If we apply his criteria, we should situate the social welfare policy in the compressed industrialization in East Asia. For example, if we compared only social security expenditures, we would show a very poor level of welfare in East Asia. This is probably a conclusion drawn by a large number of economists. But if we enter a more detailed analysis, we can develop a more nuanced conclusion. Let’s take the example of the pension system for the elderly.

Fig.7 Pension systems in East Asia

	Early institutionalization	Late institutionalization
Large scale	Japan, 1941 ,Taiwan,1950, Singapore, 1953 Malaysia	Korea,1986 Hong Kong, 1995
Limited scale	Indonesia, The Philippines, China	Thailand

(Sources) suggested by Uemura, 2004.

Horizontally in the Fig. 7, the date of the institutionalization of the pension system depends on the cooperation of the labor movement between union and state (Osawa et al. 2004). When the labor interests were considered a legitimate social matter, then the pension system was introduced early into the national framework. In Japan, it occurred during the Pacific War and in Taiwan, it was also very early occurring in 1950. In Korea, however this moment was relatively late, because the labor movement was excluded from the social *régulation* process for many years, and Koreans had to wait for more democratization in order to introduce the national pension system. What about the other countries in the Fig.7 ? Singapore and Malaysia are classified in the early institutionalization. This was due to the historical factor of a colonization heritage. In these cases, the pension system is called the “central provident fund (CPF or PF)”. This is the national obligatory saving system administrated directly by the government and begun by the former colonizer, Great Britain. The employer and the employee must subscribe to a set monthly quota (at maximum, 20% of the salary for the employee and 13% for the employer for those under 55 years old in the private sector) to prepare for the aging life, education, housing, medical care, insurance. This savings are accumulated in the employee’s account. The CPF is largely institutionalized in East Asia including Singapore, Malaysia, Indonesia, Hong Kong and China(Osawa et al., 2004). Probably this institution is one of the key factors in the social safety system within East Asia.

Vertically in the Fig. 7, we have the scale of the pension. The level of the scale of the pension system depends on the scale of industrialization in place. In Indonesia, the Philippines, Thailand and China, there is very large rural region and active rural population. This makes the industrialization pace slower. So, the social security system has become institutionalized later.

Concerning the social security system, all the East Asian countries have institutions for pensions, sickness and working accidents. For example, insurance for the work accidents was introduced very early after the war. Insurance for illness has been introduced in many countries. Public expenditure accounts for 30-60% of the total cost. But unemployment insurance is very limited. Only Japan (1947), Korea (1995), Taiwan (1999), China (1999) and very recently Thailand (2004) have introduced the system of unemployment insurance.

Different types of the salaral compromise

Concerning Fig.7, note the difference between Korea and Taiwan concerning the date of the implementation of the pension system. Here also, we can examine the difference of the configuration of the wage-labor nexus. The salaral compromise takes a

variety of forms. Very early Taiwan introduced the pension system for aged people. Although introduced formally on a large scale, its actual function was limited to certain social categories. Those privileged were soldiers and civil servants. Additionally, these social categories were occupied by the persons from outside the province. With the democratization process in the 1980s, the implementation of a universal pension system became one of the most important electoral promises. In reality, the majority of elderly (70%) were excluded from the pension system. After the arrival of the president post by the leader of the opposition party, this theme became a very hot subject in the debate with the new opposition party. In spite of the social tension mobilized by this debate, the new president abandoned the project of implementing a complete universal pension. There were several reasons. Firstly, there was the solid social compromise which blocked the new project. The old established interests blocked the formation of the new interests of the pension system. Secondly a financial consideration was brought up because the project provided an allowance for all elderly persons. Thirdly, the economic moment of the debate was never right for the new project. After the 1997-98 crisis which didn't damage the Taiwanese economy, a sudden recession began in 2000-1 due to stagnated exports to the USA. The new president stated in 2000, "we should give the priority to the economic growth and temporarily stop the social pension reform"(Lin, 2004).

In contrast to Taiwan, the universal pension system was implemented in Korea. This was made possible by the democratization process and by the 1997-98 Asian crisis which obliged certain Asian countries to take into account the importance of a social safety network. In the development not only in Taiwan but also in Korea, the industrialization was realized due to good quality workers and cheap labor costs. This industrialization had the advantage of the large export market in the west. This was the common process in Korea and Taiwan. But, the form of the salarial compromise differs between each country, reflecting the configuration of each country's wage-labor relations. Before democratization, the pension system was limited to certain social categories which legitimated the authoritarian decision-making. Labor accident insurance was introduced in 1964. In 1977, medical insurance was introduced. In the period of transition to democracy, a national pension law was announced in 1986.

The social welfare system in political debate

This subject was also treated in public opinion and political debate in Korea. The implementation of the national pension system is a result of the combination of democratization and economic growth. Additionally, it also reflects Korean society's particularities. This system promises the pension allowance only for the future elderly.

Currently this system doesn't cost the government anything. The pension fund is managed by the central government, which can use the fund for economic investment. One drawback is the system is The fund is financially fragile : contributions are only calculated at 3% of revenue yet the allowance is 70%. In the future, an increase in the contributions will be necessary.

We see that Taiwan and Korea have passed from the residual model of social security to an institutionalized system. The national pension systems differ between Taiwan and Korea. The other element of social security is medical insurance. This has already been institutionalized in these countries. In Korea, medical insurance (1977) was organized regionally and by each enterprise. This system became the national insurance system in 1988. In Taiwan, medical insurance was limited to very few people (3.43%) in 1955, but gradually opened up to many people and finally became a national insurance system in 1995. All people are guaranteed.

Great crisis and institutional innovation

Note that great economic crisis had led to the origin of a great institutional transformation. In Korea, the radical pension system was made possible by the gradual legitimacy of the state and by the utilization of the pension fund as a capital investment. There was also a social difference : the aging Korean society came later than Taiwan's. In Korea's period of authoritarian development, the social welfare policy consolidated a professional insurance system of civil and military servants from a corporatist strategy. The beneficiaries were certainly the base of political power. In this period, social security was limited to some social categories. We could say nowadays that the high level of the growth boosted the national confidence vis-à-vis the hegemonic power. This aspect was reflected also in the low level of Gini coefficient. But in the transition period from authoritarianism to democratization, the social security system was enlarged include all citizens after a number of strong social conflicts. One of the typical examples of this South Korean social struggle was the labor union movement, especially in big business, *chaebols*. In fact, unions were prohibited from political activity until 1997. During the crisis of 1998, a tripartite committee of the government, union and enterprises was set up under Kim Dae-Jung government. The slogan of this administration was a "productive welfare state". In the South Korean context, it means that it isn't the old *chaebol* driven state but balanced welfare state. More concretely, this meant that the state was not being driven by the *chaebol* but was a balanced welfare state. More concretely, it means the welfare community would take into consideration local government authority and civil movement when making decisions. This is a renewed form of Keynesian social democracy. "Renewed" means that centralized

Keynesianism is not implemented from an upper level (Usami, 2003).

Social conflict and social welfare

If the South Korean social security system is a result of strong social conflict particularly the capital-labor relations, the case of Taiwan's social security is somewhat different(Lin, 2003). It is evident that two countries were characterized by authoritarian developmentalism beginning in 1960's within the context of the Cold War. Also, after World War II, the object of international competition of modern East Asian states became the level of economic development. There was an economic race of nations ranging from social democracy government to military guaranteed governments. The uniqueness of the Taiwanese government stemmed from the state foundation in Taiwan. It was formed by continental Chinese who escaped from the communist government. These people were a minority (one-seventh of the total population) in Taiwan but dominated by taking almost all high-level posts of the central bureaucracy. They founded their own political party, the Kuomintang. The domination by state and party was achieved in the Taiwanese society. Composed of a minority, the central state intervened in civil and social matters in order to justify and enforce the legitimacy of government. This intervention by the central government wasn't the consequence of a class struggle as in South Korea. There wasn't such a strong class conflict in Taiwan, where high levels of growth brought upgraded income distribution especially in the small business network. Another positive was that the strong social mobility assured a social solution to the poverty problem. This aspect of the central state as last protector of people was improved upon during the period of democratization beginning in the 1990s. In Taiwan's case, it isn't particularly true that Taiwan is "residual welfare state". We should see rather the national difference of the constitution of social security. From this point of view, Taiwanese state after WWII was a "developmental state". It was formed by inside and outside factors. From the outside, the USA supported this state in the context of the Cold War, similar to the South Korean state. In order to recognize social hegemony, the central state established insurance for certain workers(1950), fishers(1953), farmers(1956), and civil servants(1958). It was the consequence of the salaried compromise in the Taiwan's context. Then, what is new about the democratization ? This began with isolation of Taiwan in international relations which brought about the decline of the central state. This accelerated the intensification of the Taiwanese nationalism.

We can now answer frequently posed questions concerning the social welfare system in East Asia. For example, why is the social cost level so low in East Asia ? This is partially because of the low level of aging population, in addition to the fact the

social security system was widely replaced by the CPF institution. In the long period of the development which had only small crises, the salaried compromise was based on the long economic growth. But the first great crisis and the first international level crisis occurred in 1997-98. This great crisis mobilized the social powers strengthened by the democratization indicated the structural crisis far from the monetary and financial crisis.

III Chinese Economy — *Régulation* by rupture and continuity

It is often said that the strong Chinese economic performance has been caused by reforms and an opening policy beginning in 1978. It is clear that international multinationals' FDI in coastal regions spurred an increase in exports and led the economic growth. But when we consider why such a high speed of growth became possible in China, we can't simply respond that the increase of export was only realized due to the FDI. From this point of view, we should analyze China's social and economic structure.

China: two or three Chinas

China's rapid growth resulted from the policies set in 1978. But the rapid growth also aggravated the economic inequality between city and country. In 2000, GDP of the coastal region was US\$55.34 billion, surpassing the total of GDP of Thailand (US\$12.10 billion) and South Korea (US\$39.79 billion). Actually, the eastern part of China (eight provinces and three cities) is very rich in comparison with middle region (eight provinces) and western region (six provinces, one city and five autonomous regions). If we take into consideration this wide range of economic level, we can say China is separated into two or three countries.

The coexistence of the old economic system and a new market economy led to the development and transformation of commune enterprises. The reform policy allowed for the combining of the old system with a market system. Old system is "double economy" composed of national firms, non-national firms, country and city, industrial workers and farmers. The market system developed in the old system as a way to solve specific problems. It occurred spontaneously and only after starting received political support. Now, a "two and half economy" has appeared, and there is no more real double economy (Nakagane, 2002). This new system is supported by commune enterprises, private enterprises and multinational branches. The commune enterprises were in the first stage collective enterprises and in the second stage took the private form. Now, commune enterprises are defined as enterprises existing in rural regions and investing in agricultural development. In 1996, the total of the non-agricultural

commune enterprises were 1.4 million with 5.3 million employees. Each commune enterprise employed an average of 38 persons. 75% of these enterprises employ more than 50 persons. Large enterprises employing more than 200 persons are 2.7% of the total enterprises but employ 31.7% of the total employees (Gen 2002). Commune enterprises aren't always only small enterprises. In 1993, agricultural commune enterprises provided near one-third of the total amount of tax payments. The period 1984-1988 represented a high speed of growth of communal enterprises. In five years, the total of communal employees increased to 90.545 million. Additionally, the production of the agricultural manufacturing passed from 11.5% in 1983 to 27.4% in 1988 of total manufacturing production. After this period, the competition with national enterprises became very heated; it was a time of transformation for commune enterprises. The model of modern enterprises was imposed to these enterprises. The ownership system especially matters.

Formation of a third class

The introduction of the market system and its enlargement have led to the appearance of a "third class" in the old system. Before 1978, there was inequality between rural and urban civil status. Due to the legislation of civil status in force from 1958, there is no liberty in civil status. But the introduction of market forces "mobilized" rural workers and liberalized the labor market for university students. It is difficult to maintain control of people's mobility. But it is possible to exert strong control at the local level. From 1975, freedom of mobility was never officially allowed. But, Chinese flexibility existed, so there were plural experiences of the liberalization of the civil status at the local level. But this isn't enlarged. The "third class" is defined as people who live in the city doing non-agricultural work, while classified with rural civil status. This group experiences wide and strong inequality from employment to education. This "third people" group is said to number 90 million. If we project an increase in over population in the rural regions, this third people group will still increase. The rural people having partial freedom of mobility could stay for a long time but would have limited liberty in the urban area (Marukawa, 2002).

So the labor market is now segmented into three categories (Marukawa, 2002). There are city people, rural people and immigrant "mobilized workers". Concerning education level, the labor market is open to people who have a university diploma---- it is say that the university diploma permits the access to the civil status---, it is closed to people with only a secondary education level (priority is given to local urban civil status) and it is open for marginal employment. This segmentation exists not only for employment, but also for the consumption level, and savings. In 1949, at the foundation

of the People's Republic of China, urban population accounted for only 8% (1 5.23 million) of the total population of 542 million.

After the acceleration of the urbanization, the mobilization was severely controlled. The rural region couldn't access the urban civilization and it was due to political force that mobilization was fixed. The rural population's increasing mobility will oblige the central government to completely abandon the interdiction of changing the civil state. At this moment, abandonment would require great social institutions to prepare for the instability that mass mobilization would bring. If not prepared, the entire Chinese society will face great disorder.

The Wage-labor nexus ("rapport salarial") in transformation

--- From state *régulation* to market *régulation* ---

From 1949, socialist Chinese government began an industrialization program to establish heavy industry, and the agricultural sector was expected to offer cheap manpower and low-cost support for the industrial sector. The labor market of this period is considered a state regulated labor market in the sense that the arbitrary control of manpower continued to be exerted by state organization (Marukawa, 2002). Nowadays, it is clear that China has passed from a command economy to a market system. But this new system has not been completed yet. The transformation began when the old system couldn't function. The period from 1958 to 1978 is considered a period of transformation, gradually adopting a "dual economy". The labor market was regulated for the external and internal market. In the external labor market, urban civil status was privileged: life time employment was assured in nationalized enterprises. In 1956, the classification salary system was introduced, but for a long time, the qualifications and the salary were identical for all the workers. So, it was the egalitarianism which functioned. This system gradually reduced the motivation of the workers. Total factor productivity stagnated in China from 1966 to 1977 at a level of 40% below the 1950's (Marukawa 2002). It was not until 1985 that this productivity exceeded the level of the 1950s. In 1977, the "rapport salarial" was deadlocked; productivity and salaries were stagnating and there was an increase in unemployment.

Market *régulation* in perspective --- how to control social instability?

The ratio of industrial production by nationalized enterprises decreased rapidly but these enterprises occupy a large percentage of the total employee of the industrial sector. How can unemployment be controlled? Unemployment really matters for urban civil status. China now has an unemployment insurance system like Japan (Marukawa, 2002). The system guarantees 70-90% of the minimum wage in the urban zone. The unemployment allowance approaches the minimum life cost guarantee. This assurance

covers about 30% of the total unemployed workers in 2000. The insurance covered about 77% of the total active population and 48.5% of the urban workers. The employees of public enterprises are well-covered by the insurance but other firms aren't as well-covered. One characteristic of the system is that this insurance is controlled by local governments, rather than national administration. It is also an autonomous administration. It makes clear the inequality of the payment of compensation. Actually, the unemployment allowance could be used for other purposes. The local government has the authority to intervene in the local labor market and give privilege to the local urban civil residents. The high mobility of the rural people helps maintain the inequality between city zones. Officially the Chinese government has said, according to the labor law of 1994, that the transition to a market system has been achieved. But old state institutions still exist. Also, Chinese enterprises continue to occupy three functions ; economic function, administrative function(welfare service for employees) and political function(organ of the party)(Marukawa, 2002).

New Salarial Compromise

China's transition economy raises the question of unemployment. The official rate of unemployment is 2-4%. But if we integrate over employment in the national sector, we can see an estimated 7-8% unemployment rate. How is it possible to make a soft landing with such a high level of unemployment? It would seem urgent that China consolidates its institutional system which constitutes the buffer with a market system. Most economists have been surprised by the rapid tempo of Chinese economic growth. But this rapid growth includes certain contradictions. As it means also the modernization of the old planned economy, it requires social- institutional reform in all domains. Particularly, it requires a change in the wage-labor nexus. But the problem is that this institutional reforms come later than the reforms of the production. The new Chinese enterprises are extremely competitive due to lower labor costs and original product manufacturing compared with the western enterprises. Export-led growth is the strategy of these enterprises. But the 1997-98 crisis showed the instability of this strategy. If the overproduced products weren't absorbed by exports, it would cause an increase in inventory levels. Then the classical economic conjuncture would occur : product innovation followed by overproduction leading to exports and when exports decrease, inventory levels increase, prices drop, aggravating the balance sheet resulting in an unemployment increase. In order to stop this chain, a salary compromise would be necessary throughout China. Chinese coastal development regime has a natural limit. Its usefulness is measured by the degree of the egalitarian income retribution. Without citing Confucian philosophy, all people will not accept a compromise for no apparent

reason. If certain people are obliged to bear for example in rural China, the present situation of an increasing income inequality will not be sustainable. Before a sudden crisis develops, the central and local governments should act as intermediary for new salary compromises. Before exploring the perspective of the wage-labor relation's structural reform, we will examine the longer history to remedy our short-term vision.

III Lessons from the long history of East Asia

Western Shock

As historical studies indicate, the character of the state was a common point in the South East Asian countries in ASEAN (Shiraishi,2000). The state institution was introduced and imposed by the West. Before colonization, the region was supported by tribute system centered in China. Because of the economic development, China was considered as center of Asia from the 16th and 17th centuries. This tribute commerce probably existed until some time into the 19th century. The tribute commerce was realized by the submission of local small countries and the assistance of Chinese oversea merchants. During 19th century, Southeast Asia experienced two colonization programs. The first was the formal occupation of the Dutch; it was the military occupation set up to disrupt domestic society. After this colonization, the British type of colonization began at end of 19th century and beginning 20th century. The British colonization was an informal occupation with commerce based on A.Smith's liberalism. This new order in commerce also needed the cooperation of overseas Chinese merchants. So 19th century was the transition from the *ma□□ala* (3) (Wolters,1982) to the formal state world. We can now understand the situation before intra-Asia commerce at the end of the 19th century. The states existed but was influenced from outside by the western colonization. This domination was realized with the assistance of Chinese or other local merchants in the region(Kagotani, 2000).

Imposed State

There were local small countries but no solid state institutions. It was just like *ma□□ala* world. This was the pre-20th century situation in this region. It also constituted a clear difference with Western Europe. In Western Europe, modern state hegemony dominated the period after the industrial revolution, accelerating the capitalist development. East Asian contact with Europe was realized in the Pax Britannica regime. This was an era of imperialist domination. There was a domination and dependence relationship between Europe and East Asia. However, there was also a local network consisting of domestic merchants. Consequently, the increasing ratio of intra-Asian commerce (5.5% annual rate) was superior to the increasing ratio of East

Asian and European commerce (3.8% annual rate) (Sugihara, 1996) (4).

With East Asia passing through two world wars, the hegemonic strategy passed from the British style to an American style. After 1945, the region integrated elements of the American life style which was the symbol of modernization. In this sense, the concept of fordism was also introduced to local opinion. This was the consequence of the American military occupation. But the realization of the fordist program was never automatic or linear. From the beginning of 20th century until the 1960's, the region was characterized rather by economic stagnation.

This historical memory allows us to say two things about actual East Asian geo-politics. One thing is the relatively recent history of the concept of state within the pre-ASEAN region. The state was imposed by the western shock. For East Asia the 20th century was a period of the legitimation of the modern state and of compressed industrialization. These key points largely differ from the western world. It means that there are many questions far from the difference of the developed and developing countries from the point of view of GDP growth level. The other lesson is the so called *maññala* world. Before the state system was introduced, the South East Asian world was composed of an alliance of small kings. We can probably take some geo-political ideas for today from this alliance. Finally, the notion of fordism was present from the beginning of the 20th century. The symbol of the modernization had been introduced one century ago.

IV Three scenarios...

10 years after the 1997-98 Asian crisis

First of all, what was the 1997-98 Asian crisis? We should answer this question to clarify the present configuration in East Asia. As has been indicated, the Asian crisis wasn't a small crisis but a great crisis, particularly a structural crisis. What's does this mean? The structural problem was posed in the crisis. We know that national finance systems were disturbed by international short term capital. When global short term capital flooded into the Asian countries and opened the national financial system, it was very useful for these countries because of the necessity for capital in this boom period. But this influx of speculative capital halted suddenly and massively. The result was a financial panic including disorder in the exchange markets. National financial systems were blocked. This was well known process and the weakness of the local financial systems was criticized by the international economic institutions. This criticism was in direct relation with the international authorities' explanation emphasizing the necessity of the modernization of national financial systems. But the Asian crisis didn't

merely imply a financial structural problem. It implies in fact the limits of the development model in some countries such as Korea and Taiwan. This means that the crisis could not be overcome without the critical restructuring of these nations' economies. In developmentalism, all the states had been socially mobilized for a high pace of growth for the past 30 years, which the west characterized as a fordist boom. The fundamental mediator of this strategy was the central state. The state had the role of the hegemonic power and the strong initiative for industrialization. The state also had the role of intermediary among the economic agents, since all economic institutions were prudently set up by the central administration. In Korea, this process was clear ; the state which controlled the finance system by the credit allocation policy was in deep collaboration with the *chaebols* : this decreased the transaction costs and increased capital efficiency.

This was a successful chain process if development continued. But there was a limit of this developmental process. Probably after the catch-up of certain industrial sectors, national macro economy manifested certain symptoms of a mature system. More was required by the economic agents, the workers first claimed long-ignored legitimacy, and stockholders made claims as having legitimate positions in the enterprises. So the macro economic structure was deeply transformed, but the economic institutions continued unchanged. It is unlikely that the economic institutions would suddenly disappear. This implies a great crisis of instability in East Asia. This is our understanding of the Asian crisis (Ikee et al, 2001, Fukagawa, 1997). Certainly, the form of the crisis is different in each country. In ASEAN countries, Thailand is also characterized by the limit of the past type of the development. The Bangkok-centered development has so many social and economic contradictions. The competitive power of export should be raised with the concurrence with China. In Indonesia, Asian crisis became to mean the end of the authoritarian developmentalism. There were serious sacrifices for this sake but a lasting social disorder was avoided. The following process isn't stable in search for a new state legitimacy. Malaysia is also put between NIEs and China in global concurrence. In this country, the social safety network hasn't yet been implemented : the unemployment insurance hasn't been introduced in order to maximize economic efficiency, says the governmental authority.

Column 1 East Asia income differential after the crisis of 1997-98

The crisis aggravated the income imbalance. If Indonesian income is considered 1.0, the differences in 1996 were as follows ; South Korea 9.8, Singapore 21.8, Malaysia 4.0,

Thailand 2.6, the Philippines 1.0, and China 0.6. The differences in 2002 were South Korea 12.2, Singapore 25.5, Malaysia 4.7, Thailand 2.4, the Philippines 1.2, and China 1.2. The range of imbalance expanded after the crisis. Many countries didn't realize the level of GDP per capita before the crisis, because it depended on the exchange rate of their currency with the US dollar.

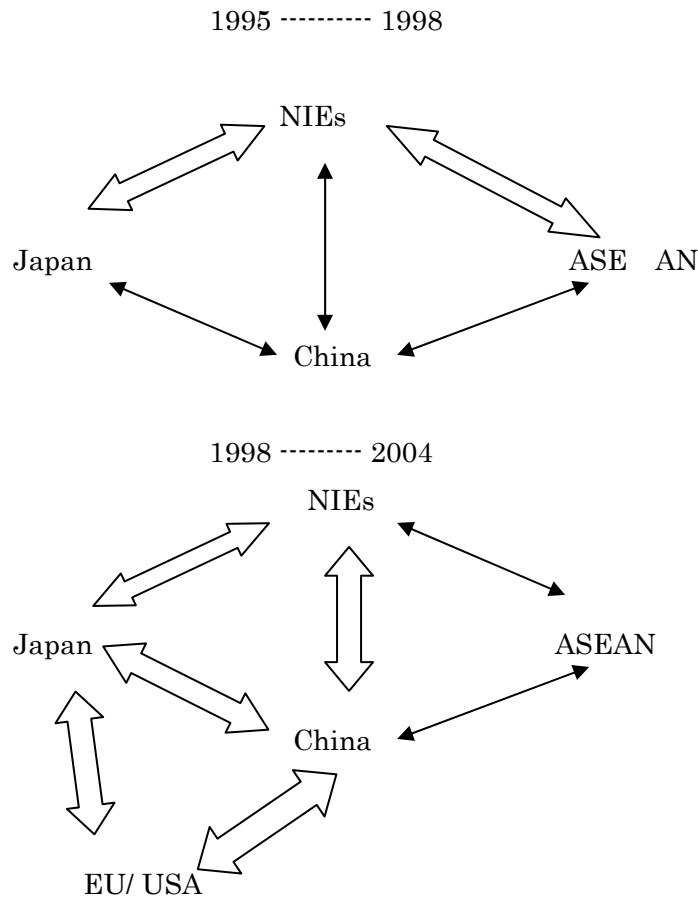
The ratio(%) of the GDP per capita from 1996 to 2002 was: 87.7(South Korea), 82.7(Singapore), 82.5 (Malaysia), 66.0 (Thai), 82.9 (the Philippines), 70.6 (Indonesia). The Chinese ratio is exceptional in this context at 143. 7. (Kinoshita, 2004)

The positive and negative heritage of the developmentalism

We could now examine the meaning of the Asian crisis, aided by ten years' hindsight. The positive side of the development was definitely sustainable growth and the increase in industrial jobs. But a negative side also existed ; Asian crisis taught the importance of the social safety network. In Korea, the newly institutionalized social welfare system did not defend the unfortunate people. The middle class was also damaged with the unemployment rate increase. So the social claims were very strong for the progress of the social safety network. But in Thailand, the existence of the social safety net was itself under discussion. It meant that in an important crisis, people were obliged to provide their own self defense. The family was the final refuge for unfortunate people. It was clear that to the great social shock, the state was not prepared to provide support for all those in need. This is evidently the negative side of the developmentalism, illustrating how the needs of average citizens were compromised or ignored.

This would mean that we should relate importance of the industrialization process in perspective(Yoshida, 2000). This seems to be the lesson of these past ten years. But simultaneously, we saw the rapid ascendance of China in the world economy in these years. This event occurred just before and after Asian crisis, when Chinese economy amplified its global importance while simultaneously the ASEAN countries weakened in their international role (Fig. 8).

Fig.8 Transformation of East Asian configuration



What is socially and economically necessary in East Asia today ?

If we could analyze the actual configuration in these terms, the future time would be opportunity and instability for East Asia. The key factors of this process would be the middle class situation and social security network. We understand that the process of economic growth, job and wage increases, middle class formation, and political democratization isn't automatically happening. The reason for this phenomena is that the middle class would like to keep its established interests. It therefore takes a conservative political stance. That has been tested in many countries. But in the Asian crisis, we saw the situation wasn't favorable for the middle class because of the absence of a social safety net. The key point is to know how to determine the substance of this safety net. The discussion is very topical at the global level. International organizations like the World Bank propose the economically neutral social safety network system. This neutral system would have a fable importance on the income redistribution effect. This opinion announced by the neoclassical economists penetrates into the national opinion. Reality isn't far from this idea. The system of the CPF which we saw is also

characterized by the lack of income redistribution. It is the institution for the capital mobilization project. Certainly this market oriented program would be one social choice.

But another one could exist. That would be a more institutional program which could overcome market mechanism defects. For example, the international organization recommends corporate governance reform of the enterprises, with the goal of a more transparent system. But in spite of this transparency, the capitalist economy didn't eliminate management risks. The A model firm isn't the only opportunity for the capitalism. That's the lesson of the varieties of the capitalism in the 20th century. The stockholder-driven firm isn't the only pattern in an economy. As the national economy is based on historical experience, this makes it difficult to construct a uniform building. What is urgent in East Asia is real structural reform : a new articulation of the manufacturing industry and the finance system. To form the competitive manufacturing power, it would be necessary to bring the skill formation system to a higher level. More skilled labor organization or more technology-oriented, capital-oriented and knowledge-oriented industrialization should be priorities of this program. Each country has to try the ladder of the dynamic comparative advantage. In this configuration, the old flying geese model isn't necessary fit to the actual current situation(Inoue & Petit, 2004). It isn't exceptional that Japanese grand enterprise has been overpassed by Asian multinationals for the benefit ranking(5). The skill level up program requires the deep engagement of the workers in the manufacturing. So the market-oriented compromise without much manpower investment but with much cost performance wouldn't be adapted for this strategy. That is why we propose a more institution-oriented compromise which would necessarily give many social benefits to workers in the future(Hatsuoka et al, 1998, Teranishi edit., 2003).

Column 2 What was the world bank 's view of the Asian crisis ?

Just after the crisis, the World Bank published its point of view which is clearly based upon the capital market and stockholders' interests. the World Bank wrote that if the corporate governance was corrected and corporate structure were made more transparent, the recovery process would be sure.

".....rapid structural changes in the real economy were requiring improvements in the corporate governance of firms for which securities market are important. This lack of well-developed capital markets meant that the monitoring of corporations was primarily the responsibility of banks and was not complemented by other financial institutions. The unbalanced financial systems also meant a lack of risk diversification, which amplified the shocks that hit the banking systems....Perhaps the most important weakness was the limited institutional development of banks."

“The main lesson from the East Asia crisis is that it is important to take an integrated approach to the issues of corporate governance and financing. The poor system of corporate governance has contributed to the present financial crisis by shielding the banks, financial companies, and corporations from market discipline. Rather than ensuring internal oversight and allowing external monitoring, corporate governance has been characterized by ineffective boards of directors, weak internal control, unreliable financial reporting, lack of adequate disclosures, lax of enforcement to ensure compliance and poor audits. These problems are evidence by unreported losses and understated liabilities. Regulators responsible for monitoring and overseeing such practices failed to detect weakness and take timely corrective action.” (*The World Bank*,1998, pp.34-35, 67-68)

If we refer to the corporate governance model, the international establishments recommend largely the Anglo-Saxon model. It is also applied to Japanese management. In the context of “the lost ten years” in the 1990’s in Japan, certain economists considered that the Japanese management was the cause of this crisis. The workers and the company’s compromise is no more valid for the period when the interest of the stockholders should be the most important. If this capitalist-driven model is realized, the workers’ interest would be excluded or underestimated in the corporate governance. This extreme case is dangerous for the firm. The firm is founded upon the balance of the economic agents. In USA where the labor market is quite flexible, the “Employee Stock Ownership” has been adopted by more than 10% of the active population. It means that the stability of the wage-labor nexus is quite necessary for the management. The lifetime employment is seriously criticized in Japan, but the importance of the workers’ control of the management is also rehabilitated by certain economists (Itami, 2000).

Column 3 ESOP Employee Stock Ownership Plan

The ESOP idea came from Lois KELSO(1914-1991). In 1954, he founded ESOP, believing that his ESOP would resolve the conflict between capitalism and socialism. The employees buy the stock of their company. But it is the employees union which buys the stock, and receives the company loan or asks the bank for capital in order to buy the stock. There is no risk for the individual employee.

This system is actually in effect for 13% of total US employees. 11.3 million people work in 9800 companies participating in ESOP. In 1974, there were 1600 companies participating in ESOP and the workers numbered 250 thousand. The ESOP differs from the old employee stock ownership because the company offers the capital and the stock. The employees are concerned only indirectly with the ownership of the stock. They can

sell their stock only at retirement. ESOP permits the employees to receive the stock for free. The ESOP would be a good medium to prevent hostile mergers and acquisitions. It would be also good for the company's proposition to reduce wages(Motoyama, 2003).

Actual East Asian configuration

About twenty years after the Asian crisis, East Asian world is somewhat disturbed by Chinese economic growth. The savage geese flying model has little validity, because the Chinese industrialization is very large scale, ranging from simple assembly line work to highly complicated processing. Chinese domestic enterprises occupy the top sales level in certain electronics production. This implies that China is not only the world's simple labor factory, but also a sophisticated high-tech manufacturer. Further, if the economic growth progresses to a sustainable pattern, the Chinese market would be greatly enlarged. It would be one of the most important national markets in the world. In addition to this Chinese economic role, there is the geo-political role of China. In addition to Russia, the regional partner of the USA would probably be China.

First scenario

So from this configuration, we could conceptualize three scenarios in order to anticipate the following decades. The first scenario is characterized by the American hegemony. Concerning military dependence, the USA could enlarge the hegemony with their allies. The USA could use the high-tech financial system which would be a tool of penetration into each country. All principal non-manufactured sectors would be related to a "global standard". These standards represent aspects of a universal evolution. But we should ensure that global standards are always combined and unified with American proper interest. The proper American interest is integrated into a global standard. We can see the roots of the American unilateralism in the global standard made in USA. This first scenario is the prolongation of fordist program, an alternative to the British type of the hegemony in East Asia at the beginning of the 20th century. But, a great difference with the old fordism is the fact that the USA has lost its manufacturing performance. This scenario reflects the fact that national economic center has transferred from manufacturing sector to financial sector, from Detroit to Wall Street. As did Great Britain at the end of the 19th century, the USA adopted a finance model economy driven by Information Technology. This could be one pattern of developed economies. But it also implies the extreme instability characteristic of the finance system. Thus, a financial crisis would become a global crisis through a contamination process. This scenario is intrinsically fragile.

In the financial sector, it is clearly the USA that dominates East Asia. There are

big financial sectors in the region. But the entire region is under USA dollar domination. For example, Yen and East Asian moneys aren't convertible without passing the exchange between USA dollar and East Asian local currencies. Even if USA continues to be the largest debtor country, the USA won't change its exchange policy. It is to use at maximum the privileged position of seigniorage of the dollar. So it would be urgent to construct an Asian long term capital market. It would certainly modify the dependence to USA.

The actual stage of East Asian international monetary accord to a reciprocal cooperation system after East Asian crisis is the first step towards a real integration in East Asia. To be more sure, this cooperation should be complemented by other efforts of each country. The supra national effort would also be necessary to overcome the barrier of the national interest. In this case, the lesson of the EU is important. The technocracy centered at Brussels is at least equivalent power of the member country's government. This institution is useful to resolve national conflicts. In East Asia, there is no equivalent institution which makes quite difficult the resolution of national conflicts. The ASEAN exists, but is limited principally to cover development matters.

Second scenario

The second scenario would be under Chinese hegemony. China isn't yet a superpower. But if the high pace of the economic growth continues in China, China will become not only the world's factory but also a mega consumption market. China would use a complicated manufacturing network system featuring the manpower cost difference. This internal network would be enlarged at the East Asian level; the recent accord of FTA between China and ASEAN is very important in this context. In spite of the competitive risks, China decided to penetrate into ASEAN countries to seek a larger market and production opportunity. Taking into consideration actual Chinese technology level, this state wouldn't keep a static concurrence advantage for a long time. It is certainly conceivable that one day China will become one of the superpowers. The only condition for this scenario would be stability inside of China. How can the country conciliate the communist party legitimacy with the market economy legitimacy? This is the decisive issue for this country. In other words, China has to devise many economic and social institutions to make the soft landing after its high speed growth. In this soft landing, the key question is the following division. The first macro economic conjuncture would be formed : competitive export product – exports increasing - surplus of the commercial balance – boom in domestic market – imports increasing– deficit of the commercial balance. Or, the second schema would be the following : increasing of the production for domestic market – boom – investment for developing domestic regions –

raising the life standard of all people. Following the first schema, China would rest a simple exporting state with commercial conflict. The second schema is clearly better for people's compromise. But it wouldn't be realized spontaneously by the market mechanism. This schema would require a solid institutional network to determine the economic structure.

For the near future, China will be bothered by internal problems. The regional development distortion should be resolved to assure its state coherence. This would require a Chinese New Deal in developing the social infrastructure. Only the central government could take initiative for this strategy. In this sense also, the central government finance should be reinforced. The present central finance is too small to cover all social investments. Another internal problem concerns the communist party legitimacy. The Chinese market transition economy is quite appreciated in the intellectual world. It is considered the gradual transition model in relation to Russia's big bang model. This is certainly so to today's stage. But as we saw previously, actual salaral compromise is quite fragile in China. It is kept only by high speed economic growth. The job creation is privileged in relation to the real wage increase or the life standard level up for all people. The critical branching out concerning the salaral compromise would occur in China as it occurred in Korea and Taiwan in the 1980s.

Chinese hegemony would be realized if Americans willingly cede their hegemony position to the new Asian leader. But if we extend the actual strategy of USA in this region, it would be difficult to imagine this alteration of the super power. The relation between China and Taiwan poses a big problem for this alteration. Officially the USA recognizes only one China. But USA continues to export weapons to Taiwan. USA has the strong willingness to keep its hegemony. Chinese eventual hegemony would so depend on the ability to negotiate with Americans to leave certain autonomy for China. In this case, the geopolitical post Cold War regime would be set up in East Asia. A new unstable factor in this scenario would be to control Chinese military hegemony. Chinese military power would be a cause of new unilateralism formed by China. It would be no guaranty that the transition of the super power would occur within peaceful process. We could remember that in the beginning of the 20th century, the transition of power in Asia from Great Britain to USA wasn't easy.

The third scenario

The first two scenarios have one common point ; Japanese position is minimized. It would be natural for this middle country not to exert global hegemony. Japan could keep its manufacturing innovation but couldn't be champion of all economic domains. The topic of the FTA agreement of Japan means that Japan doesn't realize the anticipated

advantage making the exception clause on agriculture. The agricultural domain is excluded from the Japanese FTA with Singapore. If Japan is isolated in East Asia, this country could continue its long and slow decline. In order to come out of its isolated situation, Japan must construct a cooperative regional regime in East Asia. Without being dependant to USA or China, Japan could take initiative with neighboring countries to consolidate geopolitical and geo-economic relations. One of the key issues is the formation of the money basket for commerce to replace the dollar-based currency standard. After the crisis 1997-98, East Asian countries continued to peg their currency to the dollar. There will be frequent risk of an international monetary crisis in the future. It is urgent to realize an East Asian capital market in order to establish the capital flow into East Asia. Like the EU, East Asia could have an autonomous capital center, such as New York is. This cooperative regime would give each country an economic development opportunity without being dependent on a superpower. This is a renewed *maññala* world of old Asia. “Renewed” is to say a modernized state institution. Economic relations would be composed of a hierarchical production network from labor concentrated product to capital and knowledge concentrated product. In this production base, the income redistribution institution would be introduced at national and regional level. Productive efficiency would progress towards an equity in economic growth. To achieve the equity performance at the regional level, it should first be achieved at the multi-nation level. The real multilateralism would be formed in this perspective.

Social *Régulation* of the space

Finally we will explain one of the necessities in this East Asian cooperation program. This would be a new type of social and economic Marshall plan of the 21st century. 1997-98 Asian crisis meant the necessity of resolutions at the national and international level. A concern is that these problems are deeply linked to each other. For the international problem, we cite three domains : money, labor (6) and ecology(Inoue & Yamada, 2002). These domains are treated only in the national framework. Therefore it would be necessary to build up regional accords. Of the national problems, the most crucial one is unemployment. The Asian crisis has left the important message to form a social security network to protect the unemployed. It would bring a great debate concerning the question of how to combine the public-oriented network and private-oriented network.

This problem is also linked with the pattern of economic growth. In order to overcome the instability of the export-driven economy, it is urgent to move towards a domestic market-centered growth.(Column 4 Wage, one again) The key point of this

latter pattern would be domestic regional stability. One of the main contradictions of the compressed industrialization was the imbalance between the rural and urban regions, and between agriculture and industry. This regional inequality exists now and is a crucial problem in many countries. The most critical situation is in China. The traditional opposition in Korea is also well known. In Thailand, Bangkok-centered development contributes mightily towards regional inequality. The new domestic-market centered growth shouldn't be the simple consumption of sophisticated products. This growth should be more oriented to social capital investment, or the human investment. Realizing this growth at the international regional level would make a solid future for East Asian economies.

Column 4 Wage, once again

Nowadays, it has become a universal rule that the capitalism continues to reduce the wage amounts to maintain capital efficiency. So it is not certain that in boom periods, the enterprises augment capital and investment in manpower. Is this new rule appropriate for new capitalism? One management specialist in the USA responds, "No".

Following Pfeffer, there are six myths concerning wages. The conclusion is that the employee isn't a cost to the firm but actually represents capital itself. Many managers say that if wages increase, the cost of production increases also. However, if productivity increases also, the costs decrease. Secondly, if the labor productivity doesn't increase, cutting wages doesn't necessarily mean lowering costs. This is the manager's illusion: if the employees decrease, the costs decrease also, because the labor cost takes the large part of the total cost. So in order to succeed in competition with others firms, the manager believes that the labor costs must decrease. While, there are many examples that the low level of the wage doesn't ameliorate the management rather aggravate it. There is also one illusion: the most important motivation for employees is the money incentive. But actually, the most important motivation is the psychological stability of work. The men do not work merely for the money (Pfeffer, 1998).

Notes

- (1) East Asia here means here the region including Japan, NIEs(Korea, Taiwan, Singapore, Hong Kong), ASEAN(Thailand, Malaysia, Indonesia, Philippines) and China.
- (2) Key word of the *Régulation* approach, the "rapport salarial" means the total institutions, rapports covering not only the production process but also the consumption process of the workers. It is important to say that this concept is used in the *Régulation*

theory in relation with other structural forms. See Boyer, 2004, Boyer & Saillard, 2002.

(3) *Maññala*, a Sanskrit term used in Indian manuals of government, means “the circle of kings”. The *maññala* organization of space was not an invariably harsh reality in earlier South East. In each of these *maññala*, one king defined with divine and “universal” authority, claimed personal hegemony over the other rulers in his *maññala* who in theory were his obedient allied and vassals.”

(4) “The Western’s need of the primary products carries away East Asia’s primary export (so called the first international division of labor).The latter, by the final demand(incremental increase of workers and farmers final demand) carries the increase of the consumption, for example, clothes. That was the beginning of the mass production type of industrialization.”(Sugihara, 1996)

(5)It is Samsung whose benefits overtook Sony in recent times. It is said that Samsung has radically changed its management strategy from Japanese style to American style. It certainly suffered a real shock during the East Asian crisis. The Japanese style of management was instrumental for the catch- up process in industrialization. But in the concurrence vis-à-vis world enterprises, Japanese organization power loses the efficacy necessary for the dynamic decisions. It was especially the case with semiconductors, and integrated circuits. After the systematic inquiry of the market prospective, the top of the organization of Samsung takes the decision rapidly.

(6) One of the main features of the wage-labor nexus in the East Asia is its multi-nationality flexibility. There exists the flow of the immigration from low income regions to high income regions. This flow is formed by the internal and external pattern. The typical internal pattern is the rural exodus which can be seen in many countries. The biggest one is in China. 90 -100 million de people can be considered as the minimum level of the internal immigration from east to west region in China. Thailand and Malaysia are the country which accepts the external immigration and at the same time makes come out the people to the high income level countries. In Malaysia the size of the foreign immigration is about 2 million concluding illegals and occupies about 20% of the active labor market in 2000. In Singapore, this size is about 610 000 and occupies 30% of the active labor market in 2000.The most important immigration is offered by the Philippines who export 5 million people principally feminine labor in the domestic labor market. The institutionalization of the multi-national wage-labor nexus constitutes one of the crucial point of the social régulation in East Asia.

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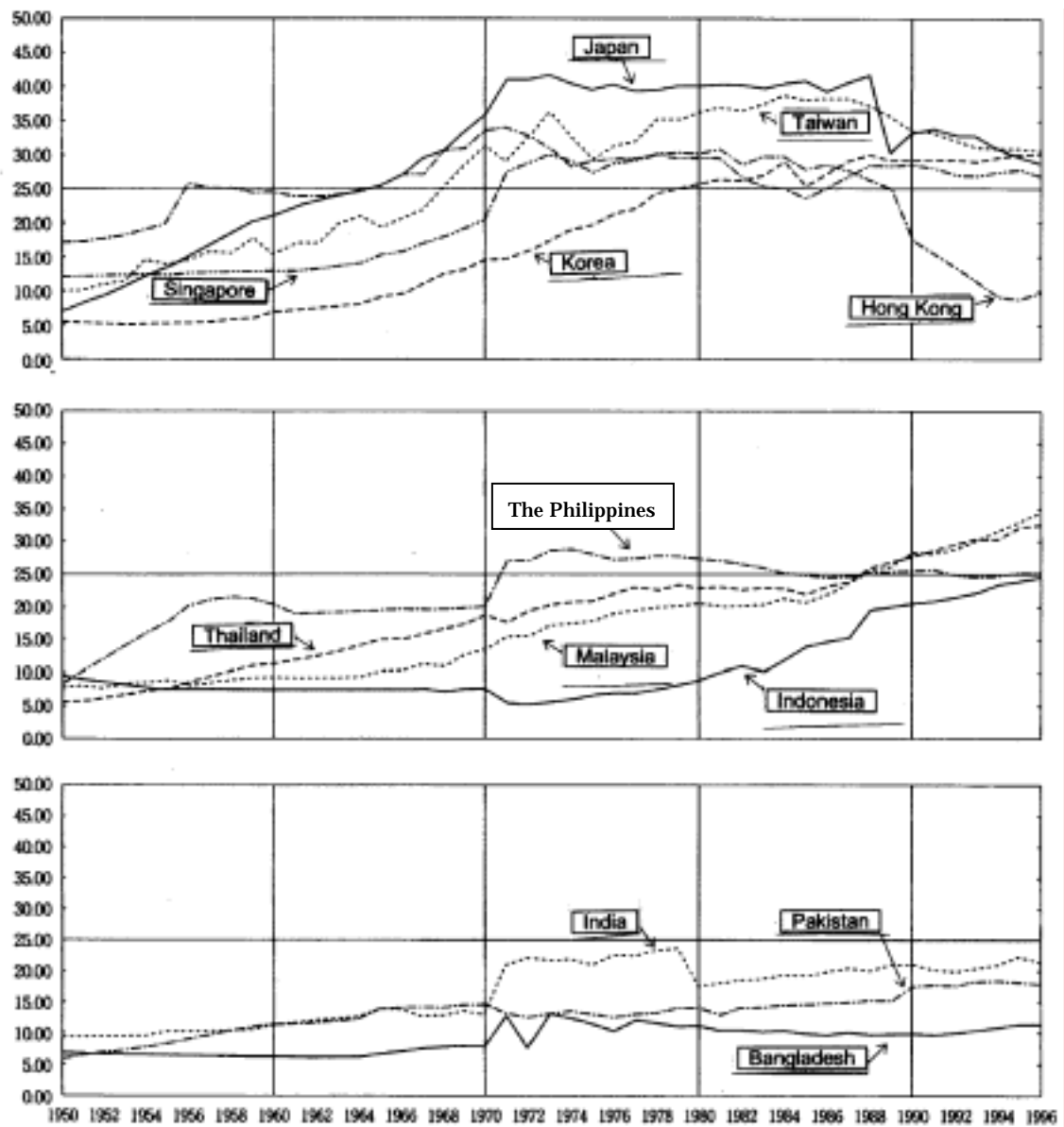
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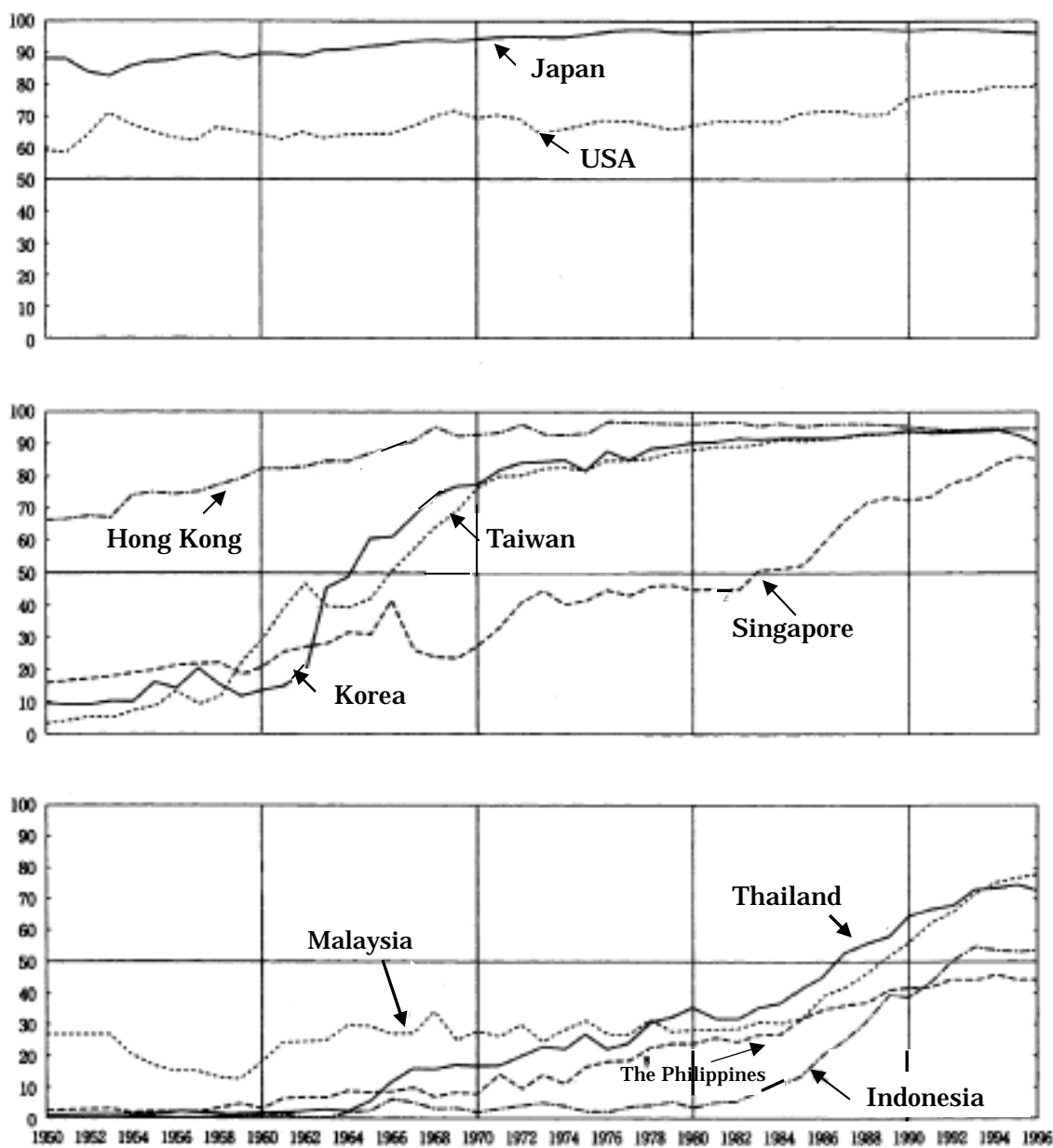
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Fig.1. Rate of Industrialization in East Asia (1950-96)



(Sources) Takanaka, 2000, p.19.

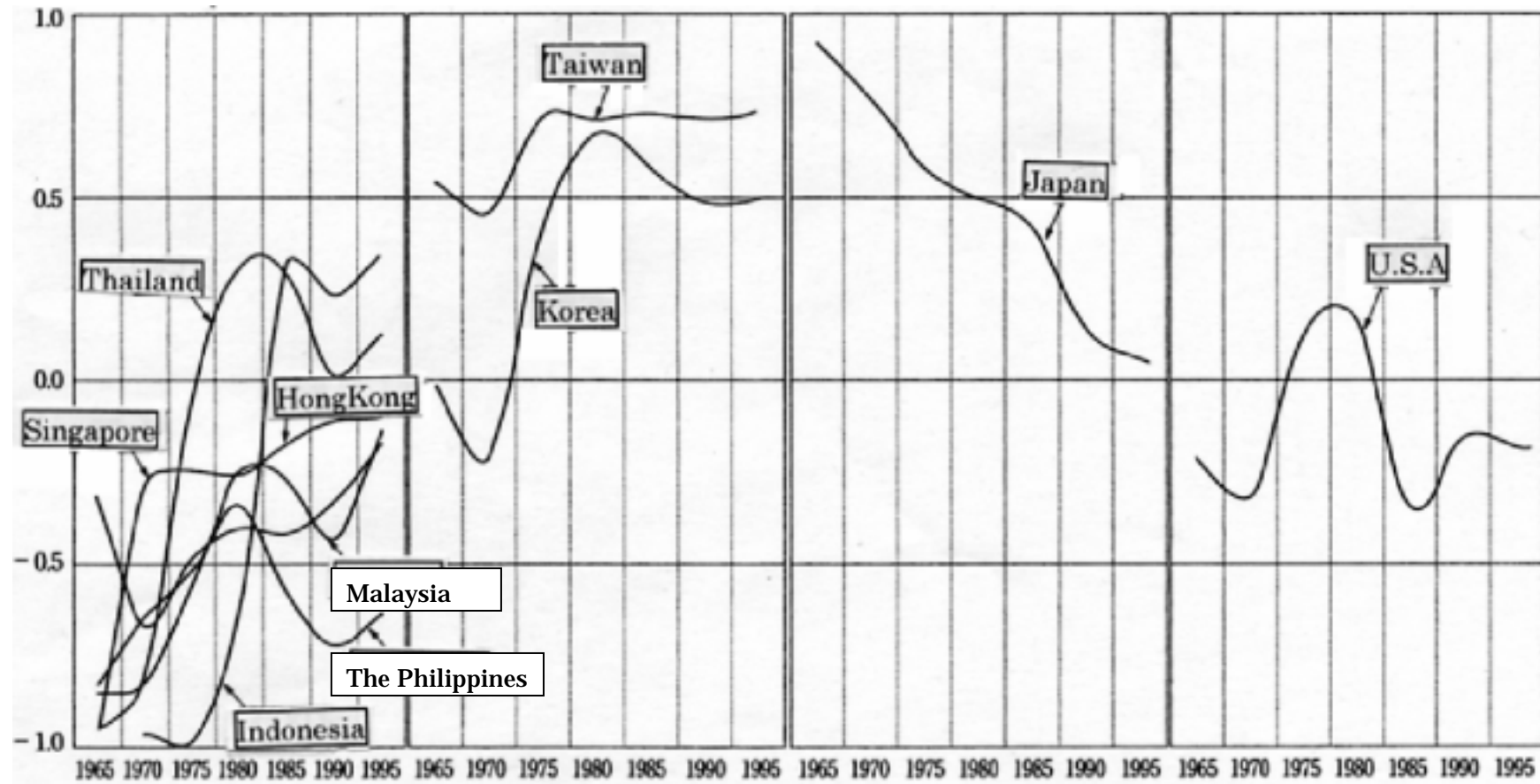
Fig.2. Industrial Export in East Asia (1950-96)



(Sources) Takanaka, op.cit., p.20.

Fig.3. International Competitive Power of Textile Product (1965-95)

Index of Competitiveness



(Sources) Tanaka, op.cit., p.78

Fig.4. Contrasting Processes of Industrialisation
- South Korea, Taiwan and Japan

	Postwar South Korea, Taiwan	Prewar Japan
System of production	Mass production	A wide range of manufacturing
Import substitution	Unchanged composition of Imports	Deepening import substitution
Product market	Centred on industrial countries	Market of colonial Asia (partly to industrialized countries)
International trade	Opening of the world market	Protected world market
International division of labour	Globalisation by multinationals	Centre / periphery

(Source) INOUE Y. (see also Takamatsu 1990)

Fig.5. Contrasting Asian NICs - South Korea and Taiwan

	South Korea	Taiwan
Initial situation	Colonialisation, Korean war	Colonialisation, Kuomintang Government
State	Invented by political leaders, cold war and economic	Party-State government transferred from mainland China
Economic policy	Planning department, trade and industry section	Defending the State, encouraging development
Planning	Long-term perspective	Reference framework
Single party in power	Government of renovation National construction and defence Presidential elections in 1971	Absence of opposition parties, administration divided between centre and regions
State/society	Social, student, workers movement	Clear division between State and society
Industrial structure	Machine tools: domestic market, domestic, production, electronical industry: large enterprises	Machine tools: exports, production abroad, electronical industry, "risk capital"
Total factor productivity	Little contribution to growth	Strong contribution to growth
Market	Large enterprises	SMEs
Labour market	Single free market up to 1985 followed by segmentation	"Taiwanese dream" (SMEs), single trade union (public enterprises), socially compliant workers

(Source) Hattori F. et Sato Y. ed.(1996)