Globalization, Liberalization and Equitable Development

Lessons from East Asia

Jomo K.S.

Overarching Concerns
Paper Number 3
July 2003

United Nations
Research Institute
for Social Development

This United Nations Research Institute for Social Development (UNRISD) work for Geneva 2000 was carried out with the support of the Netherlands, Sweden and the United Nations Division for Social Policy/Department of Economic and Social Affairs. UNRISD also thanks the governments of Denmark, Finland, Mexico, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom for their core funding.

ISSN 1020-816X

Contents

Acronyms ii

Summary/Résumé/Resumen iii
Summary iii
Résumé iv
Resumen vii

Introduction 1

The New International Economic Governance 3
GATT, the Uruguay Round and WTO 3
Foreign direct investment and transnational corporations 9
Strengthened intellectual property rights and technological development 10
Services 11
Reduced scope for industrial policy 13
Globalization and growth 14
Growing global inequality 15

Growth, Inequality and Public Policy in East Asia 16
The East Asian divide 16
Rapid growth in open economies? 19

Public Policy and Redistribution 20
Human resources 22
Social expenditure and human resources 22
Incomes, human development and democracy 24

Economic Liberalization, Public Policy and Income Inequality 27

Bibliography 33

Papers on **UNRISD Overarching Concerns** 35

Figures

Figure 1: Southeast Asia: Selected social indicators, 1995 23
Figure 2: Southeast Asia: Human development index, 1975–1997 23
Figure 3: East Asia: Public expenditure on health, 1996–1998 (as percentage of GDP) 24
Figure 4: East Asia: Public expenditure on education, 1995–1997 (as per cent of GNP) 24
Figure 5: Democracy and purchasing power parity 25
Figure 6: Human Development Index and purchasing power parity 26
Figure 7: Democracy and human development 27

Tables

Table 1: Four high-performing Asian economies: Trade trends, 1970–1995 (per cent) 7
Table 2: Five high-performing Asian economies: Trade growth and GDP share, 1970–1995 (per cent) 8
Table 3: Savings and investments in selected East Asian economies 12
Table 4: Southeast Asia: Democracy, human development and per capita income 27

Acronyms

APEC	Asia Pacific Economic Cooperation Forum
ASEAN	Association of South-East Asian Nations
AFTA	Association of South-East Asian Nations Free Trade Area
ECR	Export Credit Refinancing
EPconEP	export promotion
EU	European Union
FDI	foreign direct investment
G-7	Group of Seven
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	Generalized System of Preferences
HDI	human development index
HPAE	high-performing Asian economy
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
LC	local content
MAI	Multilateral Agreement on Investment
MFA	Multi-Fibre Arrangement
MFN	most-favoured-nation
MIA	Multilateral Investment Agreement
MITI	Ministry of International Trade and Industry, Japan
NIC	Newly Industrializing Country
NTMs	non-tariff measures
OECD	Organisation for Economic Co-operation and Development
PoC	Province of China
PPP	purchasing power parity
SEA3	Southeast Asian trio (Indonesia, Malaysia and Thailand)
SMIs	small and medium-scale industries
TNC	transnational corporation
TRIMs	trade-related investment measures
TRIPs	trade-related intellectual property rights
UNDP	United Nations Development Programme
UNRISD	United Nations Research Institute for Social Development
WTO	World Trade Organization

Summary/Résumé/Resumen

Summary

In this paper, Jomo K.S. assesses the developmental effects of globalization and economic liberalization on five economies: Indonesia, Malaysia, the Republic of Korea, Taiwan Province of China (PoC) and Thailand. He situates his discussion in the context of the dominant global trend toward economic liberalization, especially the policies promoted by the "Washington Consensus". Jomo is critical of the latter, and the World Bank in particular, which has touted the economies of Malaysia, Indonesia and Thailand (the Southeast Asian trio, or SEA3) as examples of successful rapid export-led growth with equity. Ostensibly because they did so by liberalizing—that is, by reducing state intervention, especially on the external front—the SEA3 were held up as models for emulation by other developing countries. The message was that external liberalization would bring about not only faster growth, but also greater equity. Yet, this paper shows that the SEA3 performed less well than the Republic of Korea and Taiwan PoC.

While still pursuing certain interventionist policies, the five economies have selectively undergone considerable liberalization since the 1980s. The consequences have been uneven, with some economies, industries and firms better placed to benefit from liberalization and minimize its potentially harmful effects, while others have been much more vulnerable. While industrial policy was inferior and even ill-conceived—if not abused—in the SEA3, selective government interventions there did contribute to rapid growth, structural change and the development of new internationally competitive industrial capabilities. High growth and structural transformation also raised employment and average incomes, thus reducing poverty. The consequences for inequality have been more complicated, however.

Income inequality in Thailand, Malaysia and Indonesia has been relatively greater than in the Republic of Korea and Taiwan PoC. In all five economies, inequality has risen during the period of rapid liberalization and globalization since the 1980s. Growth has raised real incomes overall and thus alleviated poverty, but there is little clear evidence of the growth process directly contributing to more equitable income distribution, except when low unemployment and skill enhancement strengthened the bargaining power and remuneration of labour generally.

Besides poverty alleviation and redistribution mechanisms, the five governments have, to varying extents, also introduced some social safety nets to reduce the dislocation caused by rapid structural changes and cyclical influences. Yet, such provisions have been minimal, because it has been presumed that the unemployed could count on "traditional" social safety nets provided by families, communities and informal sector activities. The social disasters due to the recessions following the 1997 East Asian currency and financial crises have underscored the inadequacy of such provisions when they were most needed.

Public and private investment in human resources has helped mitigate poverty and inequality. With government encouragement, the Republic of Korea and Taiwan PoC have developed

highly educated labour forces. The expansion of education not only helped generate technical and professional human resources for industrial upgrading, but also enhanced opportunities for upward socioeconomic mobility, including skill enhancement and higher remuneration.

According to Jomo, while state intervention, particularly industrial policy, in East Asia was crucial for the region’s rapid economic growth and late industrialization, this was truer of Northeast Asia (the Republic of Korea and Taiwan PoC) than Southeast Asia (Malaysia, Thailand, Indonesia). The more effective nationalist economic policies of the former were accompanied by considerable social development and more equitable income distribution. In Southeast Asia, by contrast, state interventions were more compromised and income inequalities greater.

Thus, the Republic of Korea and Taiwan PoC illustrate a progressive “virtuous cycle” of high levels of state intervention, and rapid and egalitarian economic growth with social development, characterized by relatively high literacy rates and life expectancies, among other positive social indicators. These countries also seem better poised for further economic growth, structural transformation and social development. Societal acceptance of public policies to achieve rapid growth, structural change and late industrialization in the face of externally imposed conditions, including regulations as well as liberalization, may well depend on government commitment to egalitarian development policies, involving economic asset redistribution, progressive taxation and social expenditure.

According to Jomo, the economic phenomena associated with globalization are varied and require specific responses. Insofar as some international economic liberalization is inevitable, there is a need to give due consideration to sequencing issues, on one hand, as well as proactive initiatives and supply responses, on the other. Developing country governments are poorly equipped to deal with the very complicated agenda associated with globalization. Solidarity and co-operation among these governments have declined significantly since the 1970s, especially on economic issues, and the sympathy of some European governments toward their developmental aspirations has also evaporated. Jomo emphasizes the importance of restoring both types of co-operation and mutual support for the realization of a viable alternative to the status quo, and says that although recent initiatives may well offer the prospect for such co-operation, more effort needs to go into these tentative steps.

Jomo K.S. is a Professor in the Applied Economics Department at the University of Malaya, Kuala Lumpur, Malaysia.

Résumé

Jomo K. S. étudie ici les effets de la mondialisation et de la libéralisation économique sur cinq économies, celles de l'Indonésie, de la Malaisie, de la République de Corée, de la province chinoise de Taiwan et de la Thaïlande. Il situe son étude dans le contexte de la tendance à la libéralisation économique, qui domine dans le monde, en particulier des politiques

recommandées par le “consensus de Washington”. Jomo critique ce dernier, et spécialement la Banque mondiale, qui a vanté les économies de la Malaisie, de l’Indonésie et de la Thaïlande (les trois de l’Asie du Sud-Est) comme des exemples de réussite, pour avoir obtenu, en actionnant le moteur des exportations, une croissance rapide alliée à l’équité. Pour y être parvenues en libéralisant—c’est-à-dire en réduisant l’intervention de l’Etat, surtout sur le front extérieur—les trois ont été ostensiblement présentées aux pays en développement comme des modèles à suivre. Le message était clair: la libéralisation extérieure allait entraîner non seulement une croissance plus rapide, mais aussi une plus grande équité. Pourtant, l’étude montre que les trois n’ont pas eu des résultats aussi bons que la République de Corée et la province chinoise de Taiwan.

Tout en maintenant certaines politiques interventionnistes, les cinq économies subissent depuis les années 1980 une libéralisation sélective considérable. Les conséquences ont été inégales: certaines économies, branches d’activité et sociétés étaient relativement bien placées pour profiter de la libéralisation et en atténuer les effets potentiellement néfastes tandis que d’autres étaient beaucoup plus vulnérables. Si la politique industrielle était de qualité inférieure, voire même mal conçue, sinon abusive chez les trois, des interventions sélectives du gouvernement ont contribué à une croissance rapide, à des aménagements structurels et à la création de nouvelles capacités industrielles compétitives sur le marché international. En élevant le niveau de l’emploi et des revenus moyens, la forte croissance et les aménagements structurels ont fait reculer la pauvreté. Sur le plan de l’inégalité en revanche, les conséquences ont été plus complexes.

Les inégalités de revenus ont été relativement plus prononcées en Thaïlande, en Malaisie et en Indonésie qu’en République de Corée et dans la province chinoise de Taiwan. Dans les cinq économies, l’inégalité s’est aggravée depuis les années 1980, pendant la période de libéralisation et de mondialisation rapides. La croissance a fait augmenter l’ensemble des revenus réels et a donc atténué la pauvreté mais rien ne semble indiquer qu’elle ait directement contribué à une distribution des revenus plus équitable, sauf lorsque la faiblesse du chômage et l’amélioration des qualifications professionnelles ont renforcé la position de négociation et élevé la rémunération des travailleurs en général.

A côté des mécanismes de redistribution et d’atténuation de la pauvreté, les cinq gouvernements ont aussi, à des degrés divers, pris des mesures de protection sociale pour atténuer les effets déstabilisateurs des changements structurels rapides et des influences cycliques. Pourtant, ces dispositions ont été minimes, parce qu’ils présumaient que les chômeurs pouvaient compter sur les filets de sécurité “traditionnels”, ceux que constituent les familles, les collectivités et les activités du secteur informel. Les catastrophes sociales causées par les récessions consécutives aux crises financières et monétaires qui ont secoué l’Asie orientale en 1997 ont mis en évidence l’insuffisance de ces dispositions, là où elles étaient le plus nécessaires.

Les investissements publics et privés consentis dans les ressources humaines ont aidé à atténuer la pauvreté et l'inégalité. Avec l'encouragement du gouvernement, la République de Corée et la province chinoise de Taiwan ont doté leur main-d'œuvre de hautes qualifications professionnelles. Cet effort d'éducation n'a pas seulement abouti à la formation de techniciens et de cadres qui ont contribué à moderniser l'industrie, mais a aussi favorisé une mobilité socio-économique liée à une revalorisation des compétences et des salaires.

Il est vrai que la croissance économique rapide et l'industrialisation ultérieure de la région doivent beaucoup à l'intervention de l'Etat en Asie orientale, en particulier à sa politique industrielle, mais, selon Jomo, cela l'est davantage pour l'Asie du Nord-Est (République de Corée et province chinoise de Taiwan) que pour l'Asie du Sud-Est (Malaisie, Thaïlande et Indonésie). Les politiques nationalistes des premières, plus performantes, se sont accompagnées d'un développement social considérable et d'une distribution plus équitable des revenus. En Asie du Sud-Est, en revanche, les interventions de l'Etat ont été plus mitigées et les inégalités de revenus plus marquées.

Ainsi, la République de Corée et la province chinoise de Taiwan sont l'illustration d'un "cercle vertueux" progressif où de hauts niveaux d'intervention de l'Etat stimulent peu à peu une croissance économique rapide et égalitaire et un développement social caractérisé par une espérance de vie et des taux d'alphabétisation relativement élevés, entre autres indicateurs sociaux positifs. Ces pays semblent aussi mieux placés sur le plan de la croissance économique, de l'aménagement structurel et du développement social. L'acceptation sociale des politiques publiques conçues pour obtenir une croissance rapide, le changement des structures et une nouvelle industrialisation dans un cadre extérieur imposé—soit notamment des contrôles et la libéralisation—pourrait bien dépendre de la volonté du gouvernement de mener des politiques de développement égalitaires, en jouant notamment sur une redistribution des biens économiques, la progressivité de l'impôt et les dépenses sociales.

Selon Jomo, les phénomènes économiques liés à la mondialisation sont variés et appellent des interventions spécifiques. Dans la mesure où une certaine libéralisation de l'économie internationale est inévitable, il faut accorder l'attention voulue à l'ordre dans lequel les problèmes doivent être abordés, d'une part, et anticiper et trouver des parades, de l'autre. Les gouvernements des pays en développement sont mal armés pour affronter les problèmes très complexes que pose la mondialisation. Entre eux, les liens de solidarité et de coopération se sont sensiblement relâchés depuis les années 1970, surtout sur les questions économiques, et la sympathie qu'éprouvaient certains gouvernements européens pour leurs aspirations en matière de développement s'est elle aussi évaporée. Soulignant combien il est important de rétablir, dans les deux cas, ces relations de coopération et de soutien mutuel pour proposer une solution de rechange viable au statu quo, Jomo estime que, bien que des initiatives récentes puissent annoncer une telle coopération, elles doivent être suivies d'efforts plus soutenus.

Jomo K.S. est professeur au département d'économie appliquée de l'Université de Malaya, Kuala Lumpur, Malaisie.

Resumen

En estas páginas, Jomo K.S. evalúa los efectos del desarrollo de la mundialización y la liberalización económica en cinco economías: Indonesia, Malasia, la República de Corea, la Provincia China de Taiwán y Tailandia. Enmarca su discusión en el contexto de la dominante tendencia mundial hacia la liberalización, en particular las políticas promovidas por el "Consenso de Washington". Jomo crítica estas últimas, y especialmente al Banco Mundial, que ha promocionado las economías de Malasia, Indonesia y Tailandia (el trío del Sudeste Asiático o SEA3, por sus siglas en inglés) como ejemplo de un rápido y exitoso crecimiento económico, orientado a la exportación y respetando los principios de equidad. Aparentemente, por el hecho de haber conseguido este objetivo a través de la liberalización—es decir, reduciendo la intervención estatal, en particular en el plano exterior—otros países en desarrollo consideraron los países del trío del Sudeste Asiático, como modelos a seguir. El mensaje era que la liberalización externa no sólo fomentaría un crecimiento más rápido, sino también una mayor equidad. Sin embargo, este documento demuestra que los resultados obtenidos por los países del trío del Sudeste Asiático fueron menos positivos que los de la República de Corea y la Provincia China de Taiwán.

Si bien continúan aplicando ciertas políticas intervencionistas, las cinco economías han experimentado de manera selectiva, una liberalización considerable desde el decenio de 1980. Las consecuencias han sido desiguales, de forma que algunas economías, industrias y empresas han estado mejor situadas para beneficiarse más de la liberalización y reducir sus efectos potencialmente perjudiciales, mientras que otras han sido mucho más vulnerables. Si bien la política industrial en los países del Sudeste Asiático era inferior e incluso estaba mal concebida—si no mal utilizada—las intervenciones estatales selectivas en estos países contribuyeron al rápido crecimiento, al cambio estructural y al desarrollo de nuevas capacidades industriales internacionalmente competitivas. El alto nivel de crecimiento y la transformación estructural también incrementaron el empleo y el ingreso promedio, por lo que se redujo la pobreza. No obstante, las consecuencias para la desigualdad han sido más complicadas.

La desigualdad de ingresos en Tailandia, Malasia e Indonesia ha sido relativamente mayor que en la República de Corea y la Provincia China de Taiwán. En las cinco economías, la desigualdad ha aumentado durante el período de rápida liberalización y mundialización, desde el decenio de 1980. El crecimiento ha propiciado el aumento del ingreso real en general, por lo que se ha reducido la pobreza, pero hay pocas pruebas claras de que el proceso de crecimiento contribuyera directamente a una distribución de ingresos más equitativa, salvo cuando el bajo nivel de desempleo y el desarrollo de la capacidad reforzaran el poder de negociación y la remuneración de la fuerza laboral en general.

Además del alivio de la pobreza y de mecanismos de redistribución, los cinco gobiernos han introducido, en diverso grado, redes de seguridad social para reducir el desajuste ocasionado por los rápidos cambios estructurales y las influencias cíclicas. Sin embargo, tales disposiciones han sido mínimas, ya que se ha supuesto que las personas desempleadas podrían contar con redes de seguridad social "tradicionales" facilitadas por familias, comunidades y actividades

del sector informal. Los desastres sociales debidos a las recesiones que tuvieron lugar a consecuencia de las crisis financieras y monetarias de Asia Oriental de 1997 han puesto de relieve la inconveniencia de tales disposiciones cuando más se necesitaban.

La inversión pública y privada en recursos humanos ha ayudado a mitigar la desigualdad y la pobreza. Alentada por el gobierno, en la República de Corea y la Provincia China de Taiwán, se ha desarrollado una fuerza de trabajo muy calificada. El desarrollo de la educación no sólo ayudó a generar recursos humanos técnicos y profesionales para el mejoramiento industrial, sino que también brindó más oportunidades para ascender en la escala socioeconómica, incluyendo el acrecentamiento de las habilidades y una mejor remuneración.

Jomo estima que, si bien la intervención estatal en Asia oriental, particularmente en la política industrial, fue clave para el rápido crecimiento económico y la industrialización tardía de la región, esto fue más real en el noreste de Asia (República de Corea y Provincia China de Taiwán) que en el sureste de Asia (Malasia, Tailandia y Indonesia). Las políticas económicas nacionalistas más eficaces de los primeros, fueron acompañadas de un desarrollo social considerable y una distribución de ingresos más equitativa. En cambio, en el sureste de Asia, las intervenciones estatales estaban más comprometidas, y la desigualdad de ingresos era mayor.

Así pues, la República de Corea y la Provincia China de Taiwán ilustran un "ciclo virtuoso" progresivo de alto nivel de intervención estatal, y un crecimiento económico rápido e igualitario combinado con el desarrollo social, caracterizado por elevadas tasas de alfabetismo y esperanza de vida, entre otros indicadores sociales positivos. Estos países también parecen estar mejor preparados para un crecimiento económico, una transformación estructural y un desarrollo social mayores. La aceptación social de políticas públicas encaminadas a acelerar el crecimiento, el cambio estructural y la industrialización tardía ante las condiciones impuestas externamente, incluidas tanto las regulaciones como la liberalización, pueden depender del compromiso del gobierno con políticas de desarrollo igualitarias, que involucren la redistribución de los bienes económicos, impuestos progresivos y el gasto social.

Según Jomo, los fenómenos económicos asociados con la mundialización son diversos y requieren respuestas específicas. En la medida en que una cierta liberalización económica internacional sea inevitable, es preciso prestar la debida atención a las cuestiones subsecuentes por un lado, y a las iniciativas proactivas y las respuestas dadas, por el otro. Los gobiernos de los países en desarrollo no disponen de los recursos necesarios para abordar el complicado programa asociado con la mundialización. La solidaridad y la cooperación entre estos gobiernos se han reducido considerablemente desde el decenio de 1970, particularmente con respecto a cuestiones económicas, y algunos gobiernos europeos han dejado de mostrar comprensión por sus aspiraciones de desarrollo. Jomo pone énfasis en la importancia de reestablecer ambos tipos de cooperación y de apoyo mutuo para ofrecer, efectivamente, una alternativa viable a la situación actual; y señala que si bien las iniciativas recientes pueden ofrecer perspectivas para tal cooperación, es preciso redoblar los esfuerzos encaminados a la adopción de estas medidas provisionales.

Jomo K.S. es Profesor del Departamento de Economía Aplicada en la Universidad de Malaya, Kuala Lumpur (Malasia).

Introduction

"Globalization" refers primarily to the accelerated increase in international economic relations in the recent period, usually associated with greater economic liberalization, both internationally as well as within national economies, from the 1980s. Though it is moot whether liberalization at the international level should be equated with globalization (Hirst and Thompson 1996), the following discussion does not distinguish between the two. Hence, the international dimensions of liberalization—or external liberalization—are associated with globalization.

Liberalization, economic and otherwise, has been quite uneven. However, it would be a mistake to think of liberalization as deregulation. Instead, it can be shown that liberalization actually involves new regulations or re-regulation conducive to liberalization, that is, an effectively liberalized regime requires regulation, albeit of a very different nature, as opposed to the complete absence of regulation, which would give rise to anarchy.

There is a widespread sense of globalization emanating from, and being largely determined by, the centres of world capital, advanced technology and, it is often presumed, human civilization. In a sense then, globalization is seen as the latest, accelerated and—very importantly—most intensely transnationalized stage of the process identified with development and modernization with which earlier generations have been concerned. The information revolution as well as the reduced costs, greater ease and consequent intensification of communications, including transportation, are generally believed to have facilitated and furthered these processes.

Those favouring globalization have often been ideologically inspired by liberal, neoliberal, market and other pro-business ideologies. In this sense, globalization is not simply an analytical concept, but also expresses particular views of what is considered inevitable or desirable. For many such proponents, globalization refers primarily to the extension and deepening of global markets. It is further maintained that national governments have consequently lost much of their power, with this often seen as desirable for enhancing economic efficiency and even human welfare.

The contemporary globalization experience is seen by many as being without precedent, but also as natural and desirable. In fact, the process of international economic integration from the last third of the nineteenth century until the outbreak of the First World War, surpassed many of the contemporary indices of globalization, albeit perhaps not at the same pace; interestingly, globalization from the late nineteenth century involved far more transborder labour flows and greater human migration than currently allowed by most national governments. This is not to suggest that there is nothing new about contemporary globalization; such an attitude would only blind us to the significance of the monumental changes currently taking place.

The crucial role technological change in contemporary globalization cannot be over-emphasized, and the full potential and implications of recent, current and future technological developments can hardly be fully anticipated. Yet, while there undoubtedly are many aspects of the current globalization that have been made possible by recent technological developments, particularly in communications, transport and information technology, many of these aspects of contemporary globalization are certainly not inevitable consequences of such technical changes. They are more often due to the historical circumstances of the economic, social and political control and deployment of such technology.

Hence, globalization and its implications have been quite complex, often uneven, even contradictory, and certainly not unambiguously desirable in their totality. While opening up new possibilities and opportunities, it has also closed off many others. At the very moment when so much more is possible due to technological progress, so much more is also denied by the simultaneously growing ownership and control of new technology, with the strengthening of intellectual property rights and the means for their enforcement.

Globalization since the 1980s has often been associated with the emergence of a new transnational regime characterized by weaker national, including state, sovereignty as well as local, including community and autonomy. In retrospect, it appears that the debt crises of the early 1980s, induced by United States-led deflationary policies, provided a critical opportunity for Washington to try to impose a succession of new international economic policy regimes through the Bretton Woods institutions and, more recently, through the World Trade Organization (WTO). While the International Monetary Fund (IMF) imposed short-term macroeconomic stabilization policies forcing indebted governments to open up their national economies to imports and capital from the North, the World Bank (International Bank for Reconstruction and Development, or IBRD) followed through with complementary medium-term policies for structural adjustment.

The policies associated with this "Washington Consensus"—the political leadership of the United States, the IMF and the World Bank—have had mixed consequences, and have usually not proven to be the panaceas they were touted to be. Nevertheless, there has been a clearly discernible trend toward global economic liberalization, with at least some "freeing" of most markets dominated by the North (goods, services, capital, etc.) except, of course, for international labour migration, and the strengthening and protection of intellectual property rights.

Much of the recent neoliberal economic literature suggests that economic nationalism and government intervention have undermined market forces and property rights, with adverse implications for economic growth, welfare, equity and efficiency, particularly in terms of resource allocation. Economic liberalization, including globalization, it is argued, will undermine all this, with generally benevolent consequences on balance. The collapse of the Soviet bloc, the crises of the European welfare states and the development failure of much of the South are invoked as evidence of the failure of Keynesianism, dirigism, economic nationalism, socialism and other projects involving state intervention.

In terms of international economic liberalization, recent globalization has involved liberalization of the international trade in goods and services on the one hand, and the flows of international capital (direct foreign investment, portfolio equity investment, borrowings, etc.) on the other, though the two are often closely related. But recent globalization has also involved new, often standardized regulation, ostensibly to level playing fields. This has been the main trust of new international trade and investment regulations.

Stronger regulations, implementation and enforcement have strengthened intellectual property rights—affecting technology transfers and technological development—and further constrained international migration. Changes in transnational economic governance since the 1980s have largely been along lines acceptable to and promoted by the Washington Consensus. They have been greatly enhanced by the establishment of the WTO with the conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations in 1993. Greatly strengthened intellectual property rights of the last decade have raised the costs of technology acquisition, thus further frustrating late industrialization efforts.

Uneven resistance by various national governments and others—especially in the face of the protracted global economic slowdown since the end of the post-war Keynesian "Golden Age"—as well as increasingly intense rivalries among the United States, the European Union (EU) and Japan, have rendered these processes uneven and their consequences quite mixed. Perhaps most importantly, the actual consequences of global liberalization have been much more adverse than they were widely expected to be, thus undermining the case for further liberalization. However, despite the inevitable hesitancy this record has brought about, in contrast to the often arrogant and over-confident predictions and promises of the 1980s, the liberalizing juggernaut lumbers on, with a momentum sustained by the apparent absence of viable alternatives, as the new ideological hegemony defines the terms and scope of permissible discourse and debate (Krugman 1995).

The New International Economic Governance

Recent developments in international economic governance increasingly constrain and undermine effective national economic governance, including the industrial policy initiatives that have been behind high growth in the East Asian region. Three aspects of international economic liberalization have been important in East Asia since the 1980s, and are likely to have some bearing on social development in the region: international trade, investment regimes and financial governance. The period since the 1980s has seen the emergence of new instruments of neoliberal economic restructuring at the global level besides the Bretton Woods institutions (the World Bank and the International Monetary Fund).

GATT, the Uruguay Round and WTO

Conclusion of the Uruguay Round of negotiations of the General Agreement on Tariffs and Trade gave birth to the World Trade Organization. The WTO has quickly emerged as the new arena for such new economic governance initiatives, not only involving the international trade of goods, but other related matters as well. On 6 September 1994, all members of GATT ratified the establishment of the WTO to replace GATT from 1 January 1995.

The establishment of the WTO has significantly advanced economic liberalization. This has not only involved the international trade in goods, but has also been extended to cover services (through GATS, the General Agreement on Trade in Services) as well as investment (through the agreement on TRIMs, or trade-related investment measures). With the further strengthening of transnational-dominated intellectual property rights through the agreement on TRIPs (trade-related intellectual property rights), technology acquisition is going to become more difficult and costly, further constraining national industrial and technology policies. Not surprisingly, many governments in developing countries suspect that the proposed labour standards and environmental clauses are also intended to further constrain the possibilities for late industrialization.

The WTO is committed to facilitating the effective implementation of the substantive rules that have been negotiated in the Uruguay Round and since. While continuing many GATT ideas and practices for trade liberalization, the new structure has eliminated some old GATT features protecting developing country interests under the guise of "levelling the playing field". These include some important changes for more forceful implementation of the Uruguay Round. The WTO has also extended its jurisdiction to new matters negotiated in the Uruguay Round, particularly services and intellectual property. Since GATT only applied to goods, the WTO Charter offers considerably better opportunities for the future evolution and development of the institutional structure for international economic governance. Its structure is complemented by an effective enforcement mechanism to establish an international economic order ensuring greater freedom for transnational corporations, and under which, intervention by governments, particularly of the South, will be progressively minimized.

In the WTO, one country has one vote—unlike in the IMF and the World Bank, where one dollar carried one vote, crudely speaking. But since the bulk of WTO finances come from the Group of Seven (G-7) countries, which account for two-thirds of such trade, this nominal democracy seems to be less significant in reality. In addition, countries of the South seem to have lost much of their limited capacity for cooperation and coordination in international forums, which was much more evident in the 1970s. The heterogeneity of interests among countries of the South has also become much more significant in undermining the capacity for effective collective action.

The WTO has proved to be far more powerful than the GATT in supervising the new international economic order, covering trade in manufactures, agriculture, services and intellectual property, as well as investment regulation. The WTO has an integrated dispute settlement system, which effectively means that if a country does not fulfil its obligations in one area (say, enforcing intellectual property rights), sanctions can be applied against it in another area that hurts it most (for example, its exports of primary products). The WTO has also been coordinating its programmes and policies with the World Bank and the International Monetary Fund, resulting in "cross-institutional conditionality".

As noted above, the WTO is hardly a community of equal nations in practice. The WTO has been more likely to discipline governments based on guidelines set by the major economic powers, but seems less likely to enforce rules when its most powerful members flout them. Thus, the United States and Europe can and have used the WTO to further their own interests. Meanwhile, the G-7 has been drafting policies to direct the WTO in ways favourable to them, as in the United Nations and other international bodies in recent years. Some powers still use unilateral measures to resolve bilateral trade disputes, for example, the United States used a discriminatory trade law against Japan in February 1994 after conclusion of the Uruguay Round in December 1993. The United States also delayed acceptance of the application of China—which had quit GATT after the 1949 communist takeover—to join the WTO, exacting heavy concessions from the People's Republic as the cost of accession.

Washington has frequently threatened punitive tariffs on imports from China on the grounds that Beijing has not done enough to curb widespread piracy of US copyrights, trademarks and patents. Such actions clearly threaten the multilateral spirit of the Uruguay Round agreement, but neither GATT nor the WTO has condemned the US actions. Hence, the WTO—as an instrument of the emerging global economic governance—is not only a threat to developing countries' sovereignty, but also adversely affects prospects for late industrialization and development in the South, as others try to emulate East Asia.

In addition to tightening rules on dispute settlement and anti-dumping regulations, clarifying subsidies and introducing new safeguard measures, new agreements were also concluded enhancing "market access" in East Asia. First, developed countries agreed to lower average tariff rates on industrial products by about 40 per cent. Second, the contracting parties agreed to replace various border taxes on agricultural products with tariffs ("tariffication"), to lower tariffs and to reduce domestic and export subsidies. Third, the contracting parties agreed to integrate the Multi-Fibre Arrangement (MFA) into the WTO in ten years.

The establishment of the WTO has also created a powerful permanent forum and agency for continued trade-related global economic liberalization, with far more onerous new terms and conditions accompanying the emerging new governance structure as well as greater means for enforcing them. The WTO regime will force the economies of developing countries to be more open to industrial countries for trade, capital, investment and technology. Countries will be obliged to agree to greater foreign firm domination with the new intellectual property, services and trade-related investment rules. They also face tougher regulations (for example, national rules-of-origin requirements to avoid charges of dumping) and punitive measures. In general, the sovereignty of developing country governments has been greatly eroded. Developing countries stand to lose preferential treatment from industrial nations under the Generalized System of Preferences (GSP). Such treatment will be gradually removed, or will be tied to new obligations involving TRIMs, TRIPs, greater foreign access to the services sector, and perhaps even labour and environmental standards.

With the conclusion of the Uruguay Round, it is also very difficult to use non-tariff measures (NTMs) as disguised forms of protection. Besides tariffication, tariff levels are being forced down, especially in the South. However, tariff escalation—involving higher duties for more processed products—is still evident in major developed countries, such as the European Union and Japan, even in post-Uruguay Round tariff regimes, thus effectively discouraging developing countries from downstream processing and export of processed products instead of primary commodities. In the immediate future, powerful companies in the North seeking protection will attempt to make far greater use of instruments such as anti-dumping laws. Such protection has increased significantly in recent years and the trend is likely to accelerate. For example, it is becoming increasingly difficult to use government procurement procedures and practices to favour national suppliers.

Meanwhile, governments and firms in the North have been busily inventing new measures. The lowering of NTMs and tariff levels will bring in more imports and increase market access for foreign goods. Tougher competition between domestic and foreign producers should emerge, possibly improving consumer welfare in the short term, but also undermining the expansion of indigenous industrial capacity in developing countries. The economies of developing countries will also be more susceptible to external shocks, which will adversely affect their economic stability. While exports will be further enhanced, payments for imports will also increase.

The Multi-Fibre Arrangement has placed quotas on developing country exports of textiles and clothing to the North since 1974 to enable industrial countries to adjust to the competitiveness of developing country imports. However, the MFA has also provided a window of opportunity for developing countries beginning to industrialize. With the Uruguay Round accord, the MFA will be phased out by 2006 to be replaced by a new system of (yet unknown) temporary selective safeguards that are likely to be less conducive to late industrialization than the MFA it will replace. As for market access more generally, the European Union has begun discussing plans to achieve global tariff-free trade by 2020, and is pushing for a new round of trade talks by 1999.

There is also little evidence of the terms of trade improving for the South in general, and East Asia in particular. If anything, long-term trends suggest that the converse has been true. Indeed, Table 1 shows Malaysia, and especially Indonesia, facing diminishing terms of trade between 1985 and 1995, despite significant increases in the ratio of exports to gross domestic product (GDP) and the ratio of manufactures to total exports. In this light, three broad observations are salient. First, there has been a long-term universal decline in the terms of trade for primary commodities continuing into the 1980s and 1990s. Second, there seems to have been a relative decline in the prices of manufactured exports from the South compared to manufactured imports into the South, especially from the North. Third, trade liberalization in the South has grown, mainly from the mid-1980s. The trends have been so worrying that enhanced productivity and competitiveness in East Asia may well have contributed to a variant of "immiserizing growth", that is, of productivity gains that are less-than-proportionately reflected in rising real incomes or living standards.

Table 1: Four high-performing Asian economies: Trade trends, 1970–1995 (per cent)

Economy	Exports as per cent of GDP			Manufactures as per cent of all exports		Net barter Terms of trade	
	1970	1980	1995	1980	1993	1985	1995
South Korea	14	34	33	90	93	94	102
Malaysia	42	58	96	19	65	114	92
Thailand	15	24	42	28	73	103	100
Indonesia	13	33	25	2	53	145	79

Source: World Bank (1994a, 1995, 1997).

The establishment of the WTO in place of the GATT has been justified as ultimately being in the best interests of all. More generally, such developments are said to be part and parcel of global economic liberalization, which is said to be in the interests of developing economies. The Asian Development Bank (1997) has claimed that openness has been good for economic development. Such arguments often cite East Asia as providing supportive evidence of this claim. However, more careful examination of export-oriented and export-led growth in East Asia suggests otherwise. In Northeast Asia, for instance, the regimes successfully encouraged export-oriented industrialization from the 1960s while continuing to protect domestic markets. By providing temporary effective protection conditional on appropriately phased export promotion, these regimes ensured that their infant industries quickly became internationally competitive.

East Asian economies have clearly experienced substantial trade liberalization since the mid-1980s. Foreign trade-to-GDP ratios have risen in most East Asian countries (except for South Korea), with imports and exports continuing to grow rapidly, as shown in Table 2. Such trends have mainly been due to pressures imposed by the United States and the countries of the Organisation for Economic Co-operation and Development (OECD), greater competition and the requirements of international acceptability. International developments following the conclusion of the Uruguay Round of GATT negotiations have introduced new constraints and challenges, but also offered new opportunities for East Asian economies.

While still extensively pursuing interventionist policies, all five economies have selectively undergone considerable liberalization since the 1980s. In examining the effects of economic liberalization in the region, the main developments in international trade to consider have been those associated with the WTO. Other regional trade arrangements such as the Asia Pacific Economic Cooperation Forum (APEC) and the Association of South-East Asian Nations (ASEAN) Free Trade Area (AFTA) have been and are being transformed into WTO-consistent institutions working to liberalize trade. The consequences of such liberalization are uneven, with some economies, industries and firms better placed to make gains from further liberalization and to minimize their potentially harmful effects, while others are much more vulnerable.

Table 2: Five high-performing Asian economies: Trade growth and GDP share, 1970–1995 (per cent)

Economy	Average annual import growth		Average annual export growth			Total trade/GDP	
	1970–1980	1980–1992	1970–1980	1980–1990	1990–1995	1980	1995
South Korea	11.6	11.2	23.5	12.0	13.4	74	67
Taiwan PoC	12.2	10.6	15.6	11.0	na*	na	na
Malaysia	3.7	7.9	4.8	10.9	14.4	113	194
Thailand	5.0	11.5	10.3	14.0	14.2	54	90
Indonesia	13.0	4.0	7.2	2.9	10.8	53	53

*na: not available.

Source: World Bank (1994a, 1995, 1997).

The industrial structures, capacities and capabilities in the Republic of Korea (or South Korea) and Taiwan Province of China PoC have generally been mature enough to allow further trade liberalization. Neither tariffs nor subsidies are essential anymore for them to continue to try to catch up technologically in memory chips, computers, televisions and steel. In South Korea, the same is true for ships and automobiles, and in Taiwan PoC, for machine tools. Both economies have deregulated so much that they are now among the more open economies by international standards. South Korea and Taiwan PoC, with firms at the technology frontiers in several industries, have been readier to undergo trade liberalization without seriously fettering their growth. On the other hand, Malaysia, Thailand and Indonesia have very few domestic firms at any technology frontiers, while foreign firms in these countries seem unlikely to significantly develop linkages with the rest of the host economies. The recently attempted promotion of high technology industries will be difficult to sustain with further liberalization, while industries trying to catch up technologically are likely to suffer.

To the extent that trade liberalization has been voluntary, policy changes have often reflected the success of previous industrial policy in developing internationally competitive national industrial capacities, rendering further protection and support no longer necessary, let alone desirable. Hence, insofar as selective industrial policy has involved time-bound disciplinary mechanisms—such as temporary effective protection while developing internationally competitive industrial capacity—the efficacy of such mechanisms involves gradually subjecting the industries or firms concerned to international market exposure through trade liberalization.

When trade liberalization has been forced upon governments, it has often undermined the option of using trade policy instruments, though some would argue that the opponents of trade liberalization have sometimes exaggerated their consequences. Needless to say, this will have adverse consequences for those economies just beginning to embark on late industrialization efforts. However, insofar as trade restrictions have not been part of feasible programmes to accelerate national industrial capacity development, externally coerced trade liberalization would have positive welfare implications in both the short as well as the medium term.

The General Agreement on Trade in Services initiative contained provisions ensuring most-favoured-nation (MFN) treatment for all signatories (the same treatment to be given to all member countries), "national treatment" (no discrimination against services of other countries) and abolition of restrictions on market access (no adoption of measures such as those restricting the number of service suppliers). Agreements were also concluded on trade-related intellectual property rights and trade-related investment measures; for example, local content (LC) requirements—specifying that enterprises must procure a certain percentage of their component parts locally—are now prohibited. These new rules seriously reduce the room for industrial policy initiatives although they do not eliminate them altogether. At the end of 1997, a financial services agreement established the basis for more rapid international financial liberalization.

Foreign direct investment and transnational corporations

Arguably, investment was the most important new WTO item advanced by the industrialized countries grouped in the OECD. They proposed a WTO Multilateral Investment Agreement (MIA) to liberalize TRIMs that would give foreign companies the right to enter and establish themselves in any sector of the economy in all WTO member countries. Foreign companies must be given "national treatment", meaning that there cannot be any measures that favour local firms or discriminate against foreign companies, for instance in opening branches, buying property or limiting equity ownership and profit repatriation. The WTO would thus no longer just be a "trade organization" in the broader post-GATT sense of the term, but would instead become an organization regulating investments as well. This would, of course, involve a very major extension of jurisdiction and powers, and would also involve the extension and application of WTO principles and its system of dispute settlement (including the use of trade sanctions and other retaliation measures) to investment policy.

Clearly, transnational companies would have greater freedom and rights to conduct business all over the world, free from many of the government regulations they now face. Governments would no longer have the right or power to draw up and enforce their own basic policies or laws regulating the entry, behaviour and operations of foreign enterprises in their economies. Existing national laws and policies that now constrain foreigners would have to be eliminated or changed to be acceptable to the new multilateral investment treaty. This would, of course, have serious implications, since most developing countries now have policies that seek to promote domestic companies and to prevent excessive control of national economies by foreign firms.

After the original TRIMs proposals were rejected as part of the Uruguay Round, many were resurrected as part of an OECD initiative to create the Multilateral Agreement on Investment (MAI), which eventually floundered due to US-European disagreements. However, such efforts have returned to the WTO where work on the MIA in the same spirit continues to proceed. Meanwhile, however, efforts to broaden IMF jurisdiction to promote capital account liberalization have been making significant progress since the Hong Kong meetings of September 1997, despite the contribution of international financial liberalization to the East Asian financial crisis.

Advocates of foreign direct investment (FDI) correctly argue that transnational firms have much to offer in terms of capital, technology and market access. However, they tend to ignore the importance of developing the capacities of internationally competitive domestic firms to ensure sustainable growth. Ironically, while such advocates have little hesitation in recommending industrial policy to favour FDI, there seems to be far greater reluctance to support government industrial policy initiatives in favour of national firms. The trend toward FDI liberalization would accentuate this trend, though the South Korean and Taiwanese governments have generally been quite adept at continuing to support domestic firms through a variety of means, though some of this support will have to evaporate with deregulation. In the second-tier newly industrializing countries (NICs), initiatives to support domestic firms emerged again from the late 1980s. While considerable effort has been taken to support domestic firms, the dubious criteria for such support and the absence of strict performance conditions limit their prospects for becoming internationally competitive.

With liberalized investment regulations, even the national markets in Malaysia, Thailand and Indonesia—currently dominated by domestic capital, thanks to import substitution policies—may shrink as FDI extends its dominance. Efforts to become internationally competitive over reasonable time periods, so critical for creating dynamic comparative advantage, will be restricted. While liberalization will eliminate uncompetitive industries in these countries, it will also significantly reduce the opportunities for creating new competitive capacities and capabilities in Southeast Asia. In this sense, the WTO will curtail industrial capability building in developing economies.

Strengthened intellectual property rights and technological development

During the Uruguay Round, the regulation and enforcement of intellectual property rights—copyrights, trademarks and other such proprietary claims to monopolistic rents—were brought under GATT, and then the WTO, for the first time. For the late-industrializing economies of East Asia, the greatest collective loss from the Uruguay Round may be due to its strengthening of TRIPs. While most countries have exempted agriculture, medicines and other products as well as processes from their respective national patent laws, with the passage of TRIPs, almost everything will be subject to strict international intellectual property protection, unless explicitly exempted in the agreement. In addition, the scope of "patentability" has been greatly enhanced under the new patent regime. Patents will be available for any invention, whether of products or processes, in all fields of industrial and even agricultural technology.

The costs of catching up for Japan and the first-tier East Asian newly industrialized economies were greatly reduced by the weak enforcement of intellectual property rights in the region before the mid-1980s. Strengthened rights will reduce technology transfers and increase the costs of acquiring proprietary technology that are crucial to industrial and technological catch-up efforts. Expensive royalty payments have also become an increasingly important income outflow. Since the mid-1980s, mainly under pressure from the United States, East Asian governments have introduced laws and developed powerful enforcement agencies to protect international patents and their owners, mainly firms in rich countries, which hold the bulk of registered patents. Since the TRIPs agreement, the United States has been pressing developing countries, especially in East Asia, to comply with it even more quickly than was actually agreed to in the Uruguay Round. If countries do not do so, they risk American economic and other sanctions. Thus, for example, the United States successfully blocked China from becoming a founding member of the WTO.

Even the operational basis of the patent system has been changed. Imports were not previously legally regarded as "working the patent"[1], whereas patent-holders have the obligation to work the patent in a country granting patent rights. The new patent regime provides that imports will be allowed patent rights without discrimination. This means patents can not only establish a manufacturing monopoly, but also an import monopoly. The patent holder will thus have no obligation as such to national governments that confer patent rights. There can be no checks on the import monopoly of patented goods, which can be sold at high transfer prices, since no price controls can be applied to them.

Hence, TRIPs has tightened transnational firms' monopolies over technology, thus simultaneously impeding and raising the costs of technology transfer to the South. While the WTO, GATT and the Uruguay Round were supposed to promote liberalization and free trade flows, the TRIPs agreement is clearly protectionist against the South and constrains the free flow of technology to increase the North's advantage in technology and to prevent the emergence of new industrial capacities and capabilities. Research efforts will be severely affected, as there would be few takers for indigenous process technologies in the new patent regime, because most developing countries do not have the funds or the infrastructure to match the transnational corporations (TNCs) in basic research. TRIPs will thus enable foreign firms to penetrate and dominate global markets more easily. Since foreign direct investment will be more mobile, freely moving into developing countries and granted greater protection under TRIPs, technology transfer to host countries is likely to be reduced, since most TNCs will have even less incentive to transfer technology. Meanwhile, the scope for a government to promote technology development will be further reduced.

Services

Like the GATT, the General Agreement on Trade in Services provides the legal basis upon which to negotiate the multilateral elimination of barriers that discriminate against foreign service providers and otherwise deny them market access. Restrictions on international transactions in services have been embodied in countries' domestic laws, regulations and other measures. Under GATS, these restrictions will have to be liberalized, thus creating, for services, a regime comparable to a duty-free regime for goods.

Under a 1996 agreement accounting for almost 90 per cent of global trade in financial services, for example, signatory countries are required to extend MFN treatment, market access and national treatment to all countries based on commitments in the National Schedule of Commitments. Financial liberalization has and will continue to undermine the integrity of

---

[1] A requirement in order to claim and enforce property rights.

national financial systems, including those that have been successfully deployed for industrial and trade financing to accelerate late (export-oriented) industrialization in East Asia.

The Bretton Woods institutions and other lobbies had a major setback to their advocacy of financial liberalization with the Mexico debacle of early 1995 and the questions it raised about financial liberalization. As is well known, cross-border financial flows in the last decade have had little to do with FDI. Such portfolio investments have had volatile effects on national financial markets, especially in developing economies, and these effects have increased with greater financial liberalization. The East Asian financial crisis since mid-1997 has only underscored this. Nevertheless, there seems to have been little slowing of the trend toward greater financial liberalization. In September 1997, the IMF indicated it would extend its jurisdiction to promoting capital account liberalization, while the WTO adopted a financial services agreement in December 1997.

Despite the success of directed or subsidized credit, acknowledged by the "Miracle" study (World Bank 1993), the World Bank has long been promoting the liberalization of capital markets, including the establishment of stock markets as well as markets for other derivative financial instruments. This trend has largely ignored the arguments for financial restraint—as recommended by some new developments in the economics of information (Stiglitz 1998). There is, in fact, a significant body of persuasive literature (Singh 1994) raising serious doubts about the nature and contribution of equity financing to late industrialization.

The East Asian economic miracle is often associated with the high savings rates prevailing in the region. However, this has wrongly been presumed to involve primarily household savings. Table 3 shows that corporate savings have been far more important throughout the region, underlining the importance of the corporate savings-investment nexus for rapid growth (Akyuz and Gore 1996). Presumably, high corporate savings reflect an institutional environment supporting the re-investment of the high profits enjoyed by firms in the region.

Table 3: Savings and investments in selected East Asian economies

Economy	Household		Business		Government		Economy		
	Sh	Ih	Sb	Ib	Sg	Ig	Sd	Id	Sf
China	12.5	5.5	14.1	22.1	6.0	5.7	32.5	33.4	0.8
South Korea	10.3	5.3	8.3	20.0	4.1	3.1	22.7	28.4	5.7
Taiwan PoC	13.7	na	12.0	na	6.2	4.1	31.9	26.9	–5.0
Malaysia	19.7	2.9	9.1	16.3	–1.2	11.1	27.7	30.3	2.6
Thailand	10.4	3.6	8.7	15.2	0.2	4.5	19.2	23.3	4.0
Japan	16.9	7.8	10.8	15.6	6.4	8.3	34.2	31.7	–5.5

Notes: Sh – household saving/GNP; Sd – domestic saving/GNP = Sh + Sb + Sg; Id – domestic investment/GNP = Ih + Ib + Ig; Sf – foreign saving/GNP = Id - Sd; na – not available.

Source: You (1995).

Reduced scope for industrial policy

The establishment of the WTO has clearly been accompanied by a significant extension of the jurisdiction of "global" trading arrangements. The WTO is not only involved with the international trade in goods, but also with services. By relating them to international trade, the scope of the WTO has also been extended to investment and intellectual property rights. While claiming to want to level the playing field, the new agreements have eroded earlier recognition of economic differences and the need to compensate for such differences by allowing for "handicaps", for example, under the Generalized System of Preferences or under the Multi-Fibre Arrangement. Correspondingly, much of the scope that previously existed for industrial policy initiatives at the national level has been reduced or eliminated in the emerging framework. Thus, the new regime being created by the WTO will further limit the scope for national developmental initiatives, thus undermining the prospects for late development, and with it, the chances of reducing global inequality and promoting social development.

Industrial targeting has been largely eliminated and tariffs reduced, mainly due to international pressure. With high savings rates, including considerable external reserves in the case of Taiwan PoC, both South Korea and Taiwan PoC are well placed to support further technological development. Nevertheless, entry into new product markets, such as aircraft, may be difficult unless incumbents sell or license their state-of-the-art technologies, which is unlikely to occur. However, it has been argued that these economies will face difficulties as they are mainly competitive in producing relatively generic products, which face sharply falling prices due to intense competition, involving a sort of "immiserizing growth".

Led by foreign companies, non-resource-based manufacturing growth in Malaysia, Thailand and Indonesia is not likely to fall off dramatically, especially after the recent crisis greatly enhanced their exchange rate competitiveness. Transnational companies are likely to continue to take advantage of the fairly good infrastructure, political stability, still relatively low wages and productive labour forces in these countries for profitable operations. The imminent end of preferred tax and tariff exemptions, export credit refinancing, and other fiscal incentives will remove some of the fiscal attractions that Malaysia, Thailand and Indonesia still generously offer. Their current corporate income tax rates of 30 per cent or less are also very attractive. Malaysia, and to a lesser extent Thailand, are likely to lose some of their textile and garment industries as their MFA quotas are scheduled for elimination.

The removal of bureaucratic impediments, especially red tape and customs inconsistencies, may help attract further foreign investments to Indonesia. Owing to labour shortages and rising wages, several labour-intensive firms were considering moving from Malaysia and Thailand to Indonesia before the crisis. Hence, while it seemed that the growth process was unlikely to stall as a consequence of further liberalization in these economies, the crisis-induced political instability in Indonesia and Malaysia may keep foreign investors away for some time to come.

National industrial ventures in Malaysia, Thailand and Indonesia will face intense competition from abroad. Unless heavy industries in Malaysia (like automobiles, steel and cement) and Indonesia (such as aircraft) quickly become efficient, they can only survive liberalization by writing off much of these investments. The WTO clause that allows subsidies for technological advancement does not imply support for efforts to catch up. Hence, it is difficult to imagine how these heavy industries, which lie far from the technology frontier, can possibly compete effectively in liberalized conditions.

Many other incentives and conditions, including the Export Credit Refinancing (ECR) and domestic-content requirements, will probably not survive the WTO rules. WTO requirements will reduce export subsidies as well as other instruments for developing domestic firms and increasing domestic value-added. Liberalization of relevant fiscal and industrial regulations will tend to raise concentration, as small and medium-scale industries (SMIs) will find it difficult to access credit facilities and markets. They are also likely to weaken emerging domestic firms in Malaysia, Thailand and Indonesia that might eventually become more competitive.

Thus far, the extent of liberalization in these economies has been uneven. For example, financial deregulation in all these economies has not yet exposed all small firms to open international competition. In fact, official support for small and medium-sized firms has increased in some respects despite greater macroeconomic liberalization. However, if liberalization entails an end of subsidies to SMIs, then the funds available to them will drop sharply. Such a trend will undermine the development of complementary industries supporting larger firms as well as other structural changes, and may increase market concentration. Even the progressive distributive effect of SMI promotion in Taiwan PoC may fade as special supports for them are eliminated.

Globalization and growth

It has generally been assumed that globalization has helped spur economic growth throughout the world. For most people in the poorer countries of the world, economic growth offers the only hope of escaping poverty. According to Weisbrot et al. (2000), the official data for the last two decades (1980–2000) suggest a different record. Economic growth has slowed dramatically, especially in the less developed countries, as compared with the previous two decades (1960–1980). For example:

- From 1960–1980, output per person grew by an average, among countries, of 83 per cent, while average growth was 33 per cent during 1980–2000.
- Eighty-nine countries—77 per cent, or more than three-quarters—saw their per capita growth rate fall by at least five percentage points from the 1960–1980 period to the 1980–2000 period. Only 14 countries—13 per cent—saw their per capita growth rate rise by as much between the two periods.
- In Latin America, GDP per capita grew by 75 per cent during 1960–1980, but only by 6 per cent during 1980–1998. GDP per capita for sub-Saharan Africa grew by 36 per cent in the first period, and fell by 15 per cent since.
- Even in Southeast Asia, where high growth rates were achieved, they were better in the earlier period.
- The only regional exception to this trend was East Asia, which grew faster from 1980 to 1998 than in the previous period. But this was due to the quadrupling, over the last two decades, of GDP in China, which has 83 per cent of the population of East Asia.

Hence, the World Bank and IMF cannot point to any region in the world as having succeeded by adopting the policies that they promote—or, in many cases, impose—in borrowing countries. Understandably, they are reluctant to claim credit for China, which maintains a non-convertible currency, state control over its banking system and other major violations of IMF/Bank prescriptions.

Weisbrot et al. (2000) argue that if globalization and other policies promoted by the IMF and the World Bank have not led to increased growth, it becomes extremely difficult to defend these policies. The costs of these changes—the destruction of industries and the dislocation of people, the harsh "austerity" medicine often demanded by these institutions and by international financial markets—become a burden to society without any clear countervailing benefit.

Weisbrot et al. (2000) also note that the IMF has made serious policy errors in the last three years that have undoubtedly reduced cumulative economic growth for hundreds of millions of people. In Russia and Brazil in 1998, the Fund's support for overvalued exchange rates that ultimately collapsed also caused serious economic damage. And the IMF's policies in the economies of the former Soviet Union have, over the last decade, contributed to one of the worst economic disasters in the history of the world, with Russia losing more than half its national income.

William Easterly (2001a), then a senior World Bank researcher, noted that "[t]he poor in developing countries are often better off when their governments ignore the policy advice of the International Monetary Fund and World Bank". IMF and World Bank policy makers claim that their reforms often require necessary short-term pain for the sake of long-term gain. According to him, during times of economic growth, the poor did not gain as much in countries in which the IMF lent money as they did in places with no programmes, although they were not hurt as badly in recessions. Also, he found that China, India and other countries that did not follow IMF and World Bank economic programs have seen more of their people lifted out of poverty in times of economic growth than have nations that take the advice of the Washington-based lenders.

Growing global inequality

Recent work—putting together national and international income distribution databases—suggests much cause for concern. There appear to have been significant increases in inequality with accelerating globalization. In the first ever study to calculate world income distribution from household income surveys, Branko Milanovic (1999) found distribution of individual incomes and expenditures to be more unequal in 1993 compared to 1988. His study found world income inequality to be very high. The Gini coefficient[2] for incomes in 1993 was 66, adjusted for purchasing power parity (PPP), and almost 80 using current dollar incomes. Milanovic found income inequality increased during 1988–1993 as the Gini for PPP-adjusted incomes in 1988 was 62.5. Depending on the measure used (Gini or Theil[3]), inter-country

[2] A measure of inequality within a population.
[3] A measure of inequality within a population, which allows decomposition.

inequality accounted for 75 to 88 per cent of total inequality. Inter- as well as intra-country inequality rose between 1988 and 1933, with the former rising much more when economic globalization was accelerating.

Milanovic offers other dramatic measures of global inequality such as:

- The bottom 5 per cent grew poorer while the richest quintile gained 12 per cent in real terms, that is, more than twice as much as mean world income (5.7 per cent).
- The richest one per cent of people in the world receive as much as the bottom 57 per cent, that is, less than 50 million receive as much as 2.7 billion, or more than 54 times as many people.
- An American with the average income of the poorest US decile is better off than two-thirds of the world's population.
- The top decile of the US population had the aggregate income of the poorest 43 per cent of the world's people, that is, the total income of 25 million Americans was equal to that of almost two billion people, or almost 40 times as many people.
- The ratio of the average income of the world's top 5 per cent to the bottom 5 per cent rose from 78 in 1988 to 114 in 1993.
- 75 per cent of the world population received 25 per cent of the world's PPP-adjusted income, and vice versa.
- 84 per cent of the world population received 16 per cent of the world's unadjusted dollar income, and vice versa.

The 1999 *Human Development Report* offers more evidence of growing global inequality. The last two decades have also seen changing government roles, with more regressive impacts. Tax systems have become less progressive or more regressive. In many countries, income tax rates have become less progressive, causing direct taxes to become less progressive if not regressive in impact. Meanwhile, the share of direct taxes has tended to decline compared to the generally more regressive indirect taxes. All this has generally been accompanied by various efforts to reduce overall tax rates, in line with supply-side economic philosophy, which became especially influential during the 1980s under President Reagan of the United States.

Lower tax revenues and increasing insistence on balanced budgets or fiscal surpluses have generally constrained government spending, especially what is deemed social expenditure, with some deflationary consequences. Privatization in many countries has temporarily increased government revenues, enabling governments to temporarily balance budgets or have surpluses on the basis of one-off sales incomes. Such budgetary balances are clearly unsustainable, but have succeeded in, at least temporarily, obscuring the imminent fiscal crises such policies may lead to.

Growth, Inequality and Public Policy in East Asia

The East Asian divide

In its influential 1993 publication, *The East Asian Miracle*, the World Bank argued that eight high-performing Asian economies (HPAEs)—Japan, South Korea, Taiwan PoC, Hong Kong, Singapore, Malaysia, Thailand and Indonesia—had achieved sustained and equitable export-led high growth and rapid industrialization. For the World Bank (1993), like the other HPAEs, Malaysia, Indonesia and Thailand (the Southeast Asian trio, or SEA3) experienced rapid export-led growth with equity. And more importantly for the Bank, the SEA3 did so by liberalizing, that is, by reducing state intervention, especially on the external front. Hence, the SEA3 were touted by the Bank as models for emulation by other developing countries. The message was clear. External liberalization would not only bring about faster growth, but also greater equity.

The World Bank and others argued that owing to various exceptional characteristics of the first five HPAEs, the last three Southeast Asian HPAEs were the most appropriate examples for other developing countries to emulate. Implicit in this recommendation was the claim that the achievements of the SEA3 were similar to and comparable with the other HPAEs in terms of growth, structural change, industrialization and equity.

However, the SEA3's development records have been significantly different from and inferior to those of the other HPAEs, especially Japan, South Korea and Taiwan PoC, as well as Singapore (Jomo et al. 1997; Jomo 2001). Growth and structural change in the SEA3 been slower on average than in Taiwan PoC and South Korea, while slower natural population growth in the latter has meant even faster rates of per capita income growth. While the more recent experiences of the second-tier Southeast Asian NICs may be more relevant to the rest of the South in some respects (for example, resource wealth), the superior government interventions as well as more egalitarian initial conditions and development outcomes in Japan, South Korea and Taiwan PoC should not be lost to others.

This review will show that the three Southeast Asian economies, namely Malaysia, Thailand and Indonesia, performed less well than South Korea and Taiwan PoC. All these economies experienced unprecedented growth and structural transformation in the last few decades (see Jomo 2000: Table 1). Average annual GDP growth rates exceeded 7 per cent and 6 per cent in the periods 1970–1980 and 1980–1996 respectively, with the manufacturing sector growing fastest to become the most important contributor to growth in these economies. Exports grew at double-digit levels annually over the period 1980–1992, and average per capita incomes increased greatly as a consequence. As a proportion of total growth, primary exports fell sharply, while machinery and transport equipment production grew especially strongly in the manufacturing sectors.

The experiences of the HPAEs have actually been quite varied, and the SEA3 may be usefully distinguished from Taiwan PoC and South Korea (Perkins 1994). And while industrial policy was certainly inferior and even ill-conceived, if not abused in the SEA3, selective government interventions there did also contribute to rapid growth, structural change and the development of new internationally competitive industrial capabilities (Jomo et al. 1997). High growth and structural transformation also raised employment and average incomes, thus reducing poverty. The East Asian miracle's high tide did succeed in raising most boats above the poverty level, though the consequences for inequality have been more complicated.

Also, export promotion should be distinguished from open economic policies—effective protection conditional on export promotion served to develop new internationally competitive industrial capabilities in Japan, South Korea and Taiwan PoC (Wade 1990). Compared to these Northeast Asian HPAEs, the SEA3 were undoubtedly more open, both in terms of trade as well as investments. They were also able to grow rapidly before the recent strengthening of international economic governance through the Bretton Woods institutions and the replacement of GATT with the WTO.

And while all the HPAEs undoubtedly experienced rapid growth before the 1990s, the SEA3 were about 2 percentage points slower on average. But when one also considers the much higher rates of population growth (natural as well as due to immigration) in the SEA3, the gap widens further (Jomo et al. 1997). It is generally acknowledged that the SEA3 are further behind in terms of industrialization, education and living standards. In other words, the economic achievements of the SEA3 have been more modest, and less sustainable, as suggested by the greater extent of economic disruption and slower recovery in Southeast Asia—say, compared to South Korea—after the recent East Asian financial crises (Jomo 2001). Since the 1980s, it also seems likely that Southeast Asia has lagged behind in terms of political democratization and social development, reflecting the likelihood of progressive social policy reforms and their sustainability.

The World Bank's *East Asian Miracle* volume contributed to the widespread belief in egalitarian export-oriented growth in the region by claiming that

> [t]he positive association between growth and low inequality in the HPAEs, and the contrast with other economies, is illustrated. … Forty economies are ranked by the ratio of the income share of the richest fifth of the population to the income share of the poorest fifth and per capita real GDP growth during 1965–89. … There are seven high growth, low inequality economies. All of them are in East Asia; only Malaysia, which has an index of inequality above 15, is excluded (World Bank 1993:29–30).

Income inequality in Southeast Asia (with the possible exception of Indonesia where the data is for household expenditure rather than incomes) seems to be significantly higher than in Taiwan PoC and South Korea, where significant asset redistribution took place with land reforms in the late 1940s and early 1950s. Malaysia, Thailand and possibly Indonesia have income Gini coefficients of 0.45 or more. None of them had low Gini coefficients at the beginning of their rapid growth phases or have had sustained reductions in income inequality since then. With greater economic liberalization—including globalization—since the 1980s, income inequality has risen, with the Gini coefficient rising to 0.400 in South Korea in 1988, and to 0.312 in 1993, compared to 0.277 in 1980 in Taiwan PoC (Jomo 1999).

Not only have the primary distributions of income been more regressive in Southeast Asia, fiscal regimes have generally exacerbated—rather than reduced—income inequalities among the SEA3. While income taxation remains nominally progressive, overall tax regimes have been regressive. Recent tax reforms—often associated with liberalization—have increased the regressive impact of taxation. Public expenditure has also probably been regressive in terms of overall impact, and this is likely to have increased after the 1970s. Ethnic criteria in redistribution efforts in Malaysia and, to a lesser extent, Indonesia have probably also limited the potentially broader progressive impact of redistributive efforts.

Rapid growth in open economies?

The East Asian miracle is said to have been principally due to export-led growth. But as various studies suggest, while exports tend to rise with trade liberalization in the short term, imports also tend to rise strongly, especially if the domestic currency appreciates in real terms. Thus, trade liberalization tends to limit or only weakly supplement domestic effective demand. Hence, while increased international trade may enhance growth, the added stimulus tends to be much less than presumed by proponents of trade liberalization. Despite efficiency gains from trade liberalization, increased exports do not necessarily ensure stronger domestic economic growth, that is, export-led growth.

The experiences of the SEA3 as well as Hong Kong and Singapore more closely approximate this imagined export-led growth model than those of Japan, South Korea and Taiwan PoC. The latter appear to have promoted exports very actively while also protecting domestic markets, at least temporarily, to develop domestic industrial and technological capabilities in order to compete internationally. This strategy of temporary effective protection conditional upon export promotion (EPconEP) can hardly be equated with trade liberalization. Recent criticisms (Baer et al. 1999) of attempts by an earlier generation (including Ian Little, Jagdish Bhagwati, Anne Krueger) to accommodate the Northeast Asian EPconEP experience within their fundamentalist free trade advocacy paradigm, have exposed the intellectual sophistry of neoclassical trade economists in trying to explain away the Northeast Asian success in export promotion in conjunction with national market protection.

Hence, while the East Asian economies all achieved export-oriented industrialization, they did so under different circumstances. In contrast to the Southeast Asian norm of FDI or TNC industrial leadership, Japan's Ministry of International Trade and Industry (MITI) and its counterparts elsewhere in the Northeast Asian region have hardly carried out open economy policies. While the Japanese, South Korean and Taiwanese governments did pursue import-substituting industrialization policies from the 1950s, they soon followed export-orientation as well to ensure that their industries quickly become internationally competitive by requiring a rapid transition from import substitution to export-orientation.

More importantly, in many cases, infant industries were generally provided with effective protection conditional on export promotion, which had the effect of forcing the firms and industries concerned to quickly become internationally competitive. By giving firms protection for certain periods, depending on the product being made, and by also requiring that they begin exporting certain shares of output within similarly specified periods, strict discipline was imposed on the firms in return for the temporary trade protection they enjoyed. Quantitatively, such policies forced firms to push down their own production costs as quickly as possible, for example, by trying to achieve greater economies of scale and accelerating progress up learning curves. Requiring exports has also meant that producers had to achieve international quality standards quickly, which imposed pressures to progress technologically in terms of products as well as processes. With strict discipline imposed, but also some flexibility in enforcement, many of these firms managed to rapidly achieve international competitiveness.

Southeast Asia supposedly began to take off after it reversed such trade interventions. Hence, the mid-1980s have been portrayed as a period of economic liberalization and deregulation leading to economic recovery and rapid growth and industrialization. There certainly was some deregulation during this period, but there also was some new private sector-oriented regulation, more appropriate to the new industrial policy priorities of the governments of Singapore, Malaysia, Thailand and Indonesia.

Further trade liberalization seems increasingly inevitable in recent years. But by proactively anticipating the apparently inevitable, some advantage may be regained by deliberate sequencing and timing of trade liberalization. Unfortunately, many trade policy instruments have been excluded by recent trends in international trade governance and are no longer available as options for governments. For example, local content requirements were phased out with the conclusion of the Uruguay Round of negotiations under GATT. However, despite considerable diminution, there still remains some scope for trade policy initiatives in support of industrial policy.

Besides more modest growth as well as industrialization, there has also been much higher Southeast Asian HPAEs' (including Singaporean) reliance on FDI compared to Japan, South Korea and Taiwan PoC. The much greater Southeast Asian dependence on FDI raises questions about the actual nature of industrial and technological capacities and capabilities in these countries, especially in their most dynamic and export-oriented sectors. This, in turn, raises concerns about the sustainability of their growth and industrialization processes, especially if they are later deemed less attractive as sites for further FDI, for example, as more attractive alternative locations become available.

FDI has been far more important in Southeast Asia compared to Northeast Asia. In the case of Singapore, FDI has constituted about a quarter of gross domestic capital formation. In the case of Malaysia, the proportion has been about 15 per cent. At the other end of the spectrum, in the case of Japan and South Korea, the percentage has long been below two per cent. Some of the other countries fall between these two extremes, with very few near the mean for developing countries of around five per cent. Those most successful in developing industrial capacities and capabilities in East Asia—namely Japan, South Korea and Taiwan PoC—have hardly depended on FDI, which has only played a relatively small role.

Public Policy and Redistribution

Income inequalities in Thailand, Malaysia and Indonesia have been relatively higher than in South Korea and Taiwan PoC. In all five economies, inequality has risen since the 1980s, during a period characterized by liberalization, including globalization. Thus, the evidence suggests that the World Bank's (1993) claim of egalitarian growth in Southeast Asia may be exaggerated, if not erroneous. Growth has raised real incomes overall and thus alleviated poverty, but there is little clear evidence of the growth process directly contributing to more equitable income distribution, except when low unemployment and skill enhancement strengthened the bargaining power and remuneration of labour generally.

Besides poverty alleviation and redistribution mechanisms, the five governments have, to varying extents, also introduced some "social safety nets" to reduce the dislocation caused by rapid structural changes and cyclical influences. However, such provisions have been minimized on the presumption that full employment could be indefinitely assured, and would ensure "work-fare", and thus eliminate the need for "welfare" provisions. It was often also claimed that the unemployed could always count on "traditional" social safety nets provided by families, communities and informal sector participation. The social disasters due to the recessions following the 1997 East Asia financial crises have underscored the inadequacy of such provisions when they are most needed.

It is generally agreed that South Korea and Taiwan PoC were far more interventionist in the 1950s and 1960s than Malaysia and Thailand have been in recent decades. Yet, income distribution was better and remained better in Northeast Asia during high growth, while it has fared less well in Southeast Asia. Contrary to the Kuznets' (1955) hypothesis, the cases of South Korea and Taiwan PoC suggest that lower inequality can be complementary to rapid growth in its early stages. The Northeast Asian experiences, in fact, offer a strong case for intervention to improve asset distribution and to enhance human resources in order to generate rapid growth. However, the South Korean and Taiwanese experiences have been rejected by the World Bank (1993) as special or exceptional cases unsuitable for emulation by other developing countries.

Malaysia and Thailand offer different lessons. The Malaysian economy remained largely *laissez-faire* until around 1970 (World Bank 1995), with income distribution worsening in the 1960s. After interventionist redistribution policies were adopted, growth, industrialization and income distribution improved in the next two decades before deteriorating again in the 1990s with economic liberalization. Thailand did not pursue redistribution policies, and also did not have much industrial policy as its income Gini coefficient continued to rise. Meanwhile, with increasing liberalization since the 1980s, income inequality in South Korea began to worsen.

These experiences seem to suggest that poverty alleviation and reduction of income inequality can not only accompany, but may even be conducive to, rapid growth and industrialization. Meanwhile, income inequalities tend to worsen with economic liberalization, especially in the absence of effective provisions for redistribution. Income inequality in South Korea declined in the initial stage of growth, and worsened with liberalization, turning the Kuznets' hypothesis on its head. Most of these high growth economies were hardly democratic, yet, with the exception of Thailand, their authorities were concerned that growth was not too inequitable so as to retain political support and legitimacy. In fact, the evidence suggests more and better developmental state interventions and lower income inequalities in South Korea and Taiwan PoC compared to the Southeast Asian trio.

Human resources

Many accounts of the East Asian miracle emphasize the key contributions of educational efforts in raising the quality of human resources in the region (World Bank 1998). More careful consideration of the Southeast Asian record in this regard offers less support for such claims. Southeast Asian educational achievements, including those of the SEA3, have been grossly inferior to those of the other HPAEs (Booth 2003). There is little evidence that the region's achievements in human resource development were the principal cause of the rapid growth and industrialization it experienced (Jomo 2000: Tables 6 to 9).

The Philippines, which has the highest share of tertiary educated in the Southeast Asian region with the exception of Singapore, has not had a particularly impressive economic growth record, admittedly for a complex variety of reasons. The East Asian experiences offer little support for the facile policy recommendation that governments should concentrate on enhancing human resources, but only subsidize primary schooling. With more sophisticated technological capability requirements, rapid structural change, industrialization and productivity gains may not be sustainable in the near future owing to the region's poor educational efforts in the past.

Public and private investments in human resources have undoubtedly helped reduce poverty and inequality. With government encouragement, South Korea and Taiwan PoC have developed highly educated labour forces. While primary education has been universal in these economies, at least since the 1960s, there have also been high rates of transition to the secondary and tertiary levels, and strong emphasis on technical and engineering disciplines. Clearly, these economies' public investments in human capital went well beyond the primary school limit recommended by the World Bank, with labour market interventions based on long-term considerations beyond current prices (Rodrik 1994). The expansion of education not only helped generate technical and professional human resources for industrial upgrading, but also enhanced opportunities for upward socioeconomic mobility, including skills enhancement and higher remuneration (Deyo 1989).

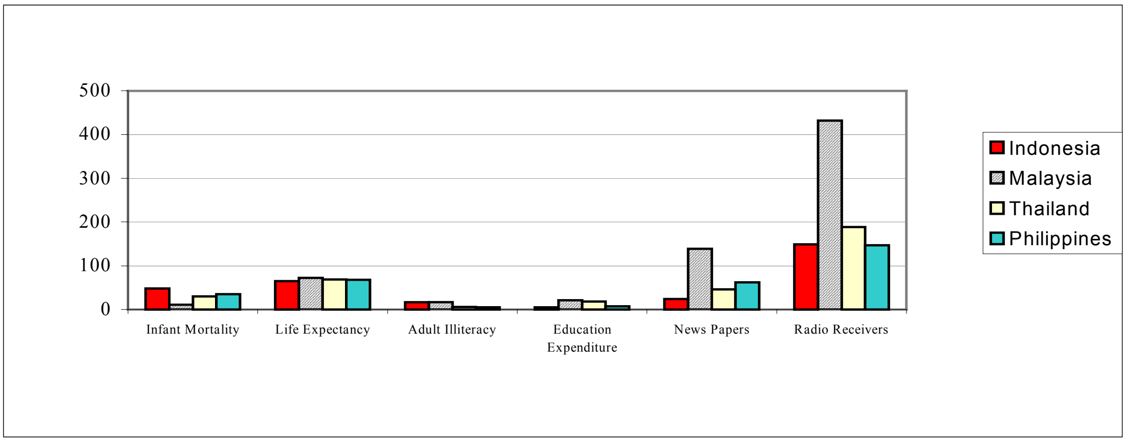
Progress in secondary and tertiary education in Malaysia, Thailand and Indonesia have not been comparable to South Korea and Taiwan PoC. As noted earlier, the Philippines has performed better on many such indicators of educational achievement than Malaysia, Thailand and Indonesia, raising serious doubts about the centrality of human resource development in contributing to growth and equality. The Philippines experience suggests that the educational efforts—developing human resources—in itself does not necessarily ensure more rapid economic growth, productivity gains or equitable distribution.

Social expenditure and human resources

Figure 1 shows Malaysia and Thailand faring better than the Philippines and Indonesia by various social indicators except adult literacy by the late 1990s. As Figure 2 shows, starting from a lower base, Indonesia made more gains than Malaysia, Thailand and the Philippines in the

United Nations Development Programme (UNDP)'s human development index (HDI) until around 1990, when progress slowed down. The Philippines made the least progress among the Southeast Asian four, falling from its leading position in 1975 and 1980 to be overtaken by both Malaysia and Thailand in the 1990s. As Figures 3 and 4 show, just before the recent regional financial crises, Indonesia, China and Malaysia spent proportionally less on health relative to other countries in the region, while Indonesia, China and the Philippines were the laggards as far as education expenditure was concerned.

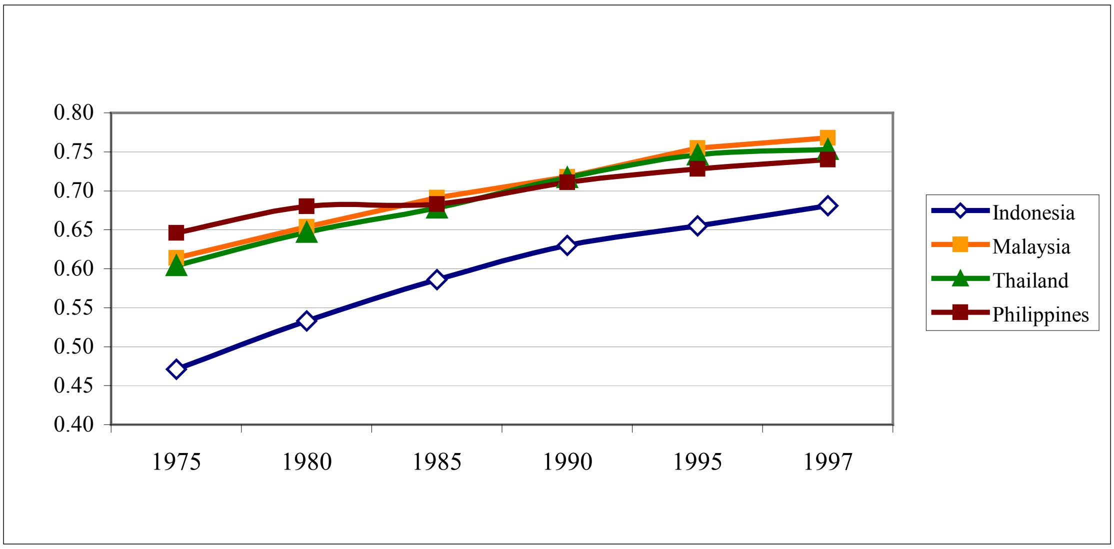
Figure 1: Southeast Asia: Selected social indicators, 1995



Notes: Education expenditure per cent of government budget for Indonesia 1998, newspaper copies and radio receivers per 1,000 inhabitants.

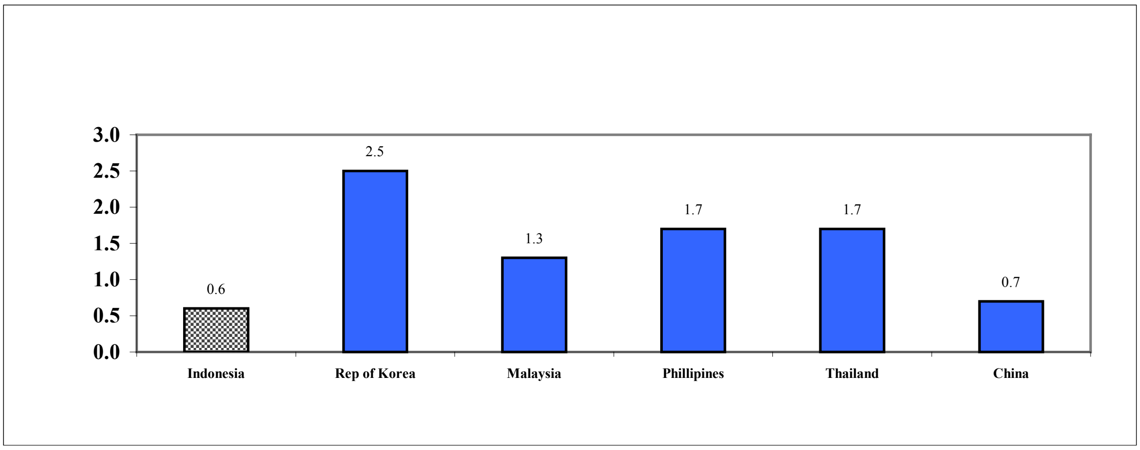
Sources: Chowdhury (2001: Figure 12) from ADB (2000) and UNESCO (1998).

Figure 2: Southeast Asia: Human development index, 1975–1997



Source: Chowdhury (2001: Figure 13) from ADB (2000).

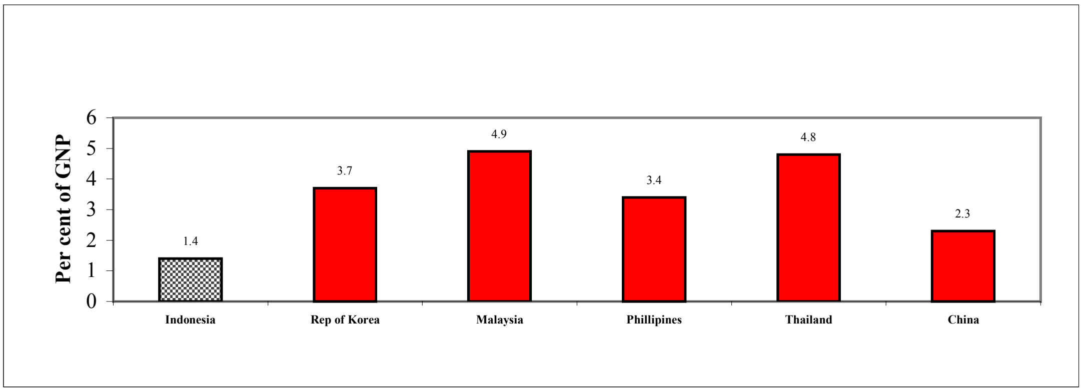
Figure 3: East Asia: Public expenditure on health, 1996–1998*
(as percentage of GDP)



* Data are for the most recent year available.

Source: Chowdhury (2001: Figure 14) from UNDP (2000).

Figure 4: East Asia: Public expenditure on education, 1995–1997*
(as per cent of GNP)



* Data are for most recent year available.

Source: Chowdhury (2001: Figure 15) from UNDP (2000).

Incomes, human development and democracy

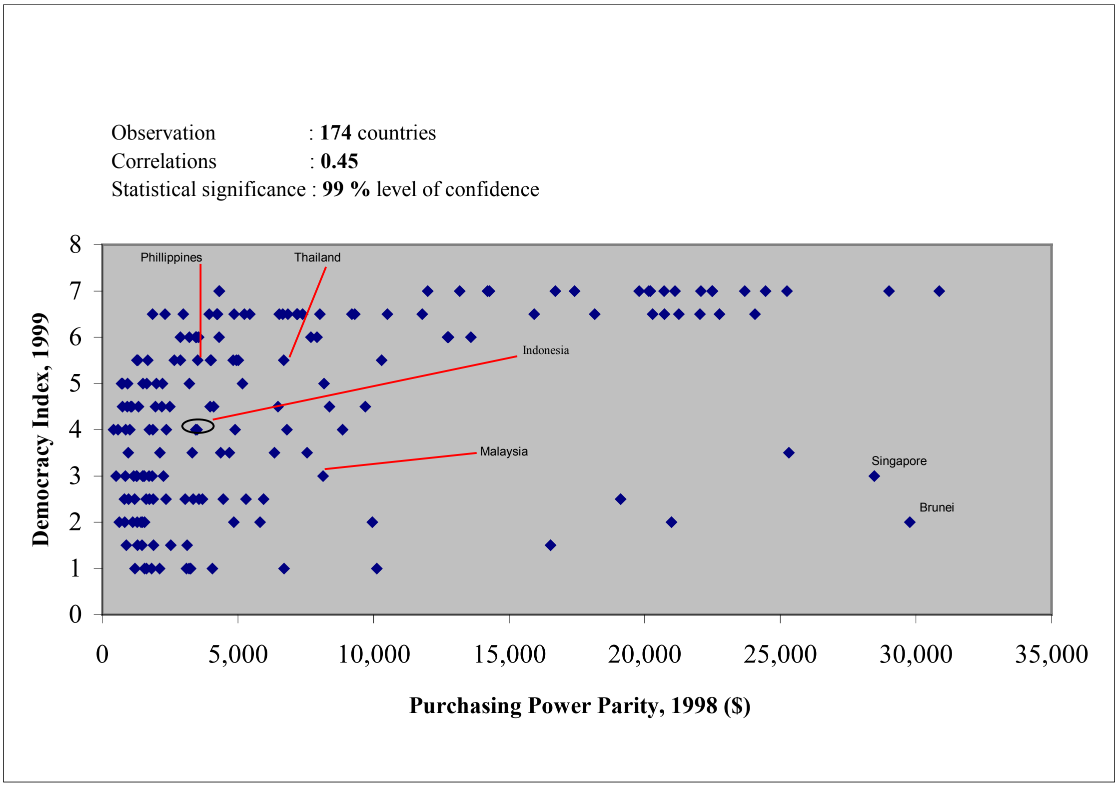
Anis Chowdhury (2001) has looked at the relationship of democracy to economic growth and human development. Figure 5 presents 174 cross-country observations on an index of democracy constructed by Freedom House against per capita income levels ranked on the basis of purchasing power parity.[4] He finds higher income levels positively associated with democracy, but no relationship at lower levels of income. The latter finding would reject the claim that democracy is a "luxury good".[5]

---

4 Combination of political rights and civil liberties indices.

5 Luxury goods are those goods for which demand rises at a faster rate with increases in income.

Figure 5: Democracy and purchasing power parity

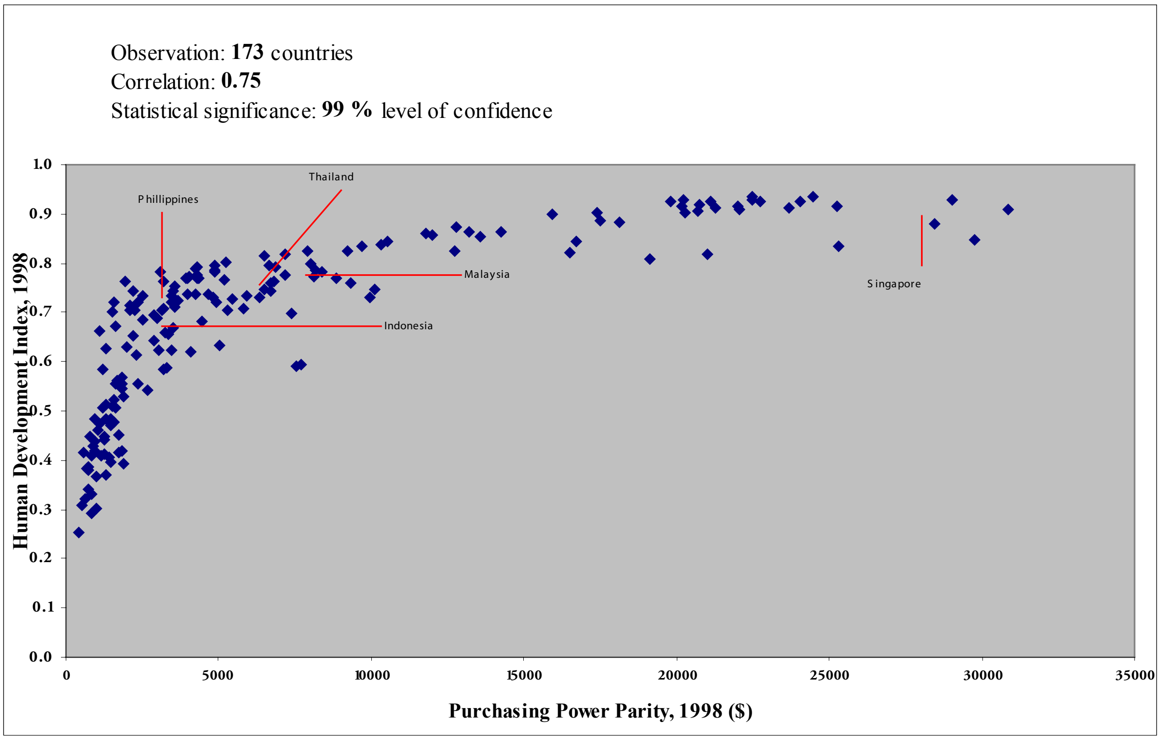


Source: Chowdhury (2001: Figure 2) and www.freedomhouse.org.

Figure 6 presents 173 cross-country observations of GDP per capita (PPP-based) and the UNDP's HDI. This shows that high income countries have higher HDI, but that low-income countries, too, can achieve high HDI scores, thus refuting the "trickle down" hypothesis,[6] that is, a country can make significant HDI gains even at low income levels, again implying that human development is not a luxury.

[6] That a country must grow first before it can improve distribution. Once the "cake" grows bigger, the benefits of it will reach the poor and disadvantaged.

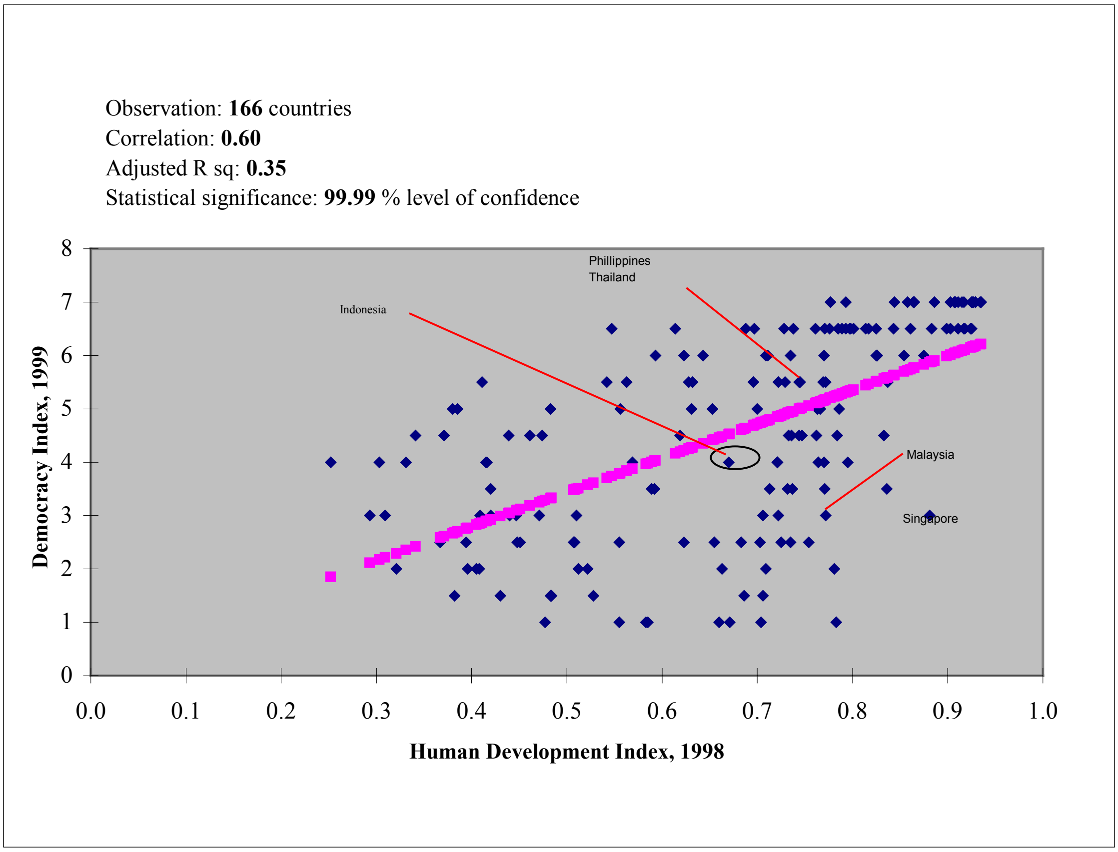
Figure 6: Human Development Index and purchasing power parity



Source: Chowdhury (2001: Figure 3) using UNDP (2000).

A strong relationship between democracy and HDI (a correlation coefficient of 0.6) is reflected in Figure 4, which is a scatter plot of the democracy and human development indices for 166 counties. For Chowdhury, the stylized facts reflected in Figures 5–7 and Table 1 suggest a virtuous triangle linking human development, democracy and economic growth.

Figure 7: Democracy and human development



Source: UNDP (2000) and www.freedomhouse.org.

Table 4: Southeast Asia: Democracy, human development and per capita income			
Country	**Democracy index**	**HDI**	**Per capita income ($ PPP)**
Philippines	5.5	0.744	3,520
Thailand	5.5	0.745	6,690
Indonesia	4	0.670	3,490
Malaysia	3	0.772	8,140
Singapore	3	0.881	28,460
Brunei	2	na	29,773

Source: Chowdhury (2001).

Economic Liberalization, Public Policy and Income Inequality

The consequences of globalization and liberalization for growth, poverty and income inequality in East Asia are quite complicated and also quite contingent. Compared to the impact of globalization, it is likely that domestic or internal liberalization has a stronger effect on national inequalities. Available information does not allow a carefully considered assessment of the welfare consequences of recent liberalization and globalization for different socioeconomic groups, such as those in poverty. South Korea and Taiwan PoC lack natural resources, but have transformed their economies through interventionist industrial policies. Malaysia, Thailand and Indonesia have relied more on resource rents to alleviate poverty, though employment growth has also been decisive. Export-oriented industrialization, driven primarily by foreign capital in Southeast Asia, has helped reduce unemployment and thus raised household incomes in these economies.

After the fiscal and foreign debt crises of the early and mid-1980s, most East Asian governments emerged leaner by the late 1980s, partly due to economic liberalization. Government expenditure as a percentage of total economic activity was reduced, public sector expansion reversed, state-owned enterprises constrained and privatization policies pursued. Government regulations were reduced, mainly to induce greater private, especially foreign, investment. While economic welfare was often adversely affected, some waste and undesirable regulation was also eliminated in the process. (However, available information does not allow meaningful welfare balance sheets to be drawn up in this regard.)

Poverty alleviation in these economies has been facilitated by rapid growth. The East Asian economies reviewed here especially managed to grow rapidly without seriously worsening income distribution until the late 1980s. Meanwhile, poverty has continued to decline in these economies. All these economies introduced policy instruments to alleviate poverty and, to a lesser extent, to improve income distribution.

Income distribution in South Korea, Taiwan PoC, Malaysia and Indonesia has intermittently experienced some improvements. Only Thailand, the least committed to redistribution, has experienced worsening income distribution over the long term. The country, which has historically been the most liberal of the five economies under consideration, has experienced the most sustained long-term tendency toward greater income inequality. In fact, it was the only economy among the five that recorded increased poverty in the mid-1980s, and greater urban poverty in 1990.

Available evidence suggests that liberalization since the 1980s adversely affected income distribution in the region. Rising income inequality under essentially *laissez-faire* conditions in the past have re-emerged as the economies of the region have liberalized once again. Deregulation, reduced government intervention, declining commitment to earlier redistributive mechanisms, and greater government efforts to meet investor expectations have probably all contributed to increased inequality in the region. Recent and current trends suggest the likelihood of continued worsening inequality (see Ishak 1996; Onchan 1995). Redistributive policies have been discouraged by liberalization as well as renewed commitments to protecting property rights, aggravating social inequality in these countries. More liberalization is likely to further exacerbate such regressive trends.

Liberalization did not significantly increase poverty in the region (except perhaps in Thailand) before the currency and then financial crises of 1997 induced a regional recession in 1998, but seems to have been accompanied by worsening inequality in Malaysia, South Korea and

Taiwan PoC—a trend consistently more pronounced in Thailand from earlier on. In other words, although poverty in these economies continued to fall with rapid growth, productivity gains and declining unemployment, income inequality has been worsening in South Korea, Taiwan PoC and Malaysia from the 1980s.

Thus, contrary to the claims of the World Bank, the East Asian economies do not confirm any clear relationship between export-oriented industrialization and better income distribution (also see Alarcon-Gonzalez 1996). While export orientation may have been crucial to sustain long-term growth, equity may not improve without effective redistributive mechanisms, usually implemented through government intervention. The World Bank recommends that other developing countries try to emulate the second-tier Southeast Asian NICs, especially from the mid-1980s, when they liberalized. However, the evidence suggests that South Korea and Taiwan PoC have had much more egalitarian growth compared to Malaysia, Indonesia and Thailand, and that inequality has increased in East Asia with liberalization from the 1980s, especially in Southeast Asia.

The Bank's simplistic picture of East Asian "growth with redistribution"—or "egalitarian growth"—does not stand up to scrutiny. Northeast Asia has been distinctly more egalitarian than Southeast Asia and recent economic liberalization has exacerbated inequality throughout the region. Interestingly, those economies with more elaborate, effective and successful industrial policies have also been more egalitarian.

While state intervention, particularly industrial policy, in East Asia was crucial for the region's rapid economic growth and late industrialization, this was more true of Northeast Asia (Japan, South Korea and Taiwan PoC) than Southeast Asia (Malaysia, Thailand, Indonesia). Such more effective nationalist economic policies were accompanied by considerable social development and more equitable income distribution in Northeast Asia. In Southeast Asia, by contrast, state interventions were more compromised and income inequalities much greater.

Hence, Taiwan PoC and South Korea suggest a progressive "virtuous cycle" of high state intervention, rapid and egalitarian economic growth with social development. Northeast Asia's "virtuous cycle" has been characterized by relatively high literacy rates and life expectancies, among other positive social indicators. These countries also seem better poised for further economic growth, structural transformation and social development in future. Public or social acceptance of public policies to achieve rapid growth, structural change and late industrialization in the face of externally imposed conditions, including regulations as well as liberalization, may well depend on the governments' commitment to egalitarian development policies, involving economic asset redistribution, progressive taxation as well as social expenditure. The usual political variables cannot explain the differences. For much of the high growth period, only Japan in Northeast Asia and Malaysia in Southeast Asia had meaningful and regular elections, but both remained characterized by single-party rule. It seems likely that despite the absence of Western style welfare states in the region, equitable social development was considered necessary to legitimize "dirigist" developmental regimes which were not displaced by electoral means.

The conditionalities attached to the IMF emergency credit facilities provided to Thailand, Indonesia and South Korea not only exacerbated their crises, but also sought to further liberalize their economies (Jomo 1998). As former IMF official Morris Goldstein (quoted in *New York Times*, 21 October 2000) notes, "I think it's clear that both the scope and the depth of the fund's conditions were excessive." According to Goldstein, whose study using unpublished IMF data had just been published by the Institute of International Economics, the recent push for radical overhauls of nations that borrow money has undermined the fund's reputation and strained its competence. "They clearly strayed outside their area of expertise. If a nation is so plagued with problems that it needs to make 140 changes before it can borrow [referring to Indonesia], then maybe the fund should not lend." Lending programmes often intrude on areas well outside the IMF's traditional mandate. Thailand was told to remove a tax on foreigners who buy condominiums. South Korea was given a blueprint for tax reform.

"Under heavy pressure from wealthy nations that control its policies, the fund demanded a king's ransom from Indonesia as the price for its US$40 billion assistance package. … The fund has used financial emergencies when borrowers needed help urgently to extract the sort of concessions that nations are often not willing to make in healthy times." Citing the study, the newspaper noted that the pressure to use the fund as a lever to bring about changes in developing nations came primarily from the Group of Seven wealthy nations, the United States foremost among them.

In September 2000, just before the Prague annual meetings of the IMF and World Bank, new Fund Managing Director Horst Koehler announced that in future, his organization would present governments with policy options, allowing governments to choose among various alternatives bearing in mind the Fund's prognosis for the implications of different options. If this is translated into policy, it will be a major development as developing country governments have been increasingly confronted with policy conditionalities favouring certain vested interests, but irrelevant to the problems at hand.

The Bretton Woods institutions have discouraged East Asian governments from developing Western-style welfare institutions, instead favouring social safety nets, especially in crisis situations. There is a certain irony to this policy recommendation. While developing countries have been discouraged from selective state interventions such as industrial policy because their governments are deemed to lack the capacity for effective targeting, such targeting is favoured for the far more difficult task of identifying the poor in crisis situations. While regulatory approaches are tolerated when they involve a relatively small number of economic agents (for example, factories to be kept under surveillance for pollution infringements), market-based approaches are preferred by economic theory for dealing with large numbers of agents, such as users of leaded petroleum. In view of the failure or inadequacy of existing social policy in East Asia, there continues to be strong sentiment in favour of more comprehensive and progressive social policy initiatives instead of the exceptional and targeted social safety net approach currently favoured.

Nevertheless, there are two reasons why the social safety net approach should not be rejected outright. First, acceptance of the approach requires governments to develop and improve their selection capabilities in non-crisis times in order to be effective during crises. The recent failures of the social safety net approach in the crisis-hit Southeast Asian economies underscore the need for governments to develop such capabilities before crisis hits. Acceptance of the principle of selectivity is also important for other selective government interventions such as industrial policy. Second, the social safety net approach is also consistent with the need to develop counter-cyclical macroeconomic policies.

After two decades, critical reconsideration of the Washington Consensus, which sees no alternative to liberalization and globalization, is long overdue. There is considerable evidence that international financial liberalization, for instance, has not only been bad for redistribution, but also for growth. It has not only failed to move funds on a sustained basis from the capital rich to the capital poor, but has also raised the real costs of finance besides increasing systemic volatility and vulnerability, exerting contractionary or deflationary macroeconomic pressures and constraining selective government interventions to enhance development (Jomo 1998).

While trade liberalization should theoretically enhance consumer welfare all round, if the highly restrictive assumptions of Hecksher-Ohlin international trade theory approximated the real world, in reality, in the short and medium term, it has resulted in massive job and income losses, with regressive consequences. Similarly, investment liberalization has systematically reduced the possible gains from foreign direct investment to a host economy as beggar-thy-neighbour competition has led to a race to the bottom. The new international economic governance regime also constrains the potential for pro-active development initiatives. In short, there are strong reasons to doubt liberalization and globalization’s allegedly benign consequences for growth as well as distribution.

There is now considerable evidence that high growth in East Asia was due to successful and appropriate developmental public policy interventions rather than economic liberalization. Clearly then, South Korea and Taiwan PoC have not only achieved far more in terms of growth, industrialization and structural change than Thailand, Indonesia and Malaysia with significantly lower inequality as well. The better economic performances of the first two were due to more effective government interventions, especially selective industrial policy, while lower inequality was partly due to significant asset (especially land) redistribution before the high growth period, full employment and social development to ensure support for developmental public policies.

Liberalization has undermined the economies’ capacities to catch up. The most urgent task for the medium-term is, therefore, the creation of new capacities and capabilities for “catching up” in the new conditions created by accelerated liberalization and globalization as well as reforms imposed in the aftermath of the crises. There is also evidence that economic liberalization in recent years exacerbated inequalities in all five countries since the 1980s.

The experiences of many developing countries (Ganuza et al. 2000) suggest that equitable growth has been possible with policy mixes combining three elements. First, by avoiding a macroeconomic mix of real exchange rate appreciation and high domestic interest rates; second, developing and maintaining flexible systems of well targeted export incentives; and third, having appropriate prudential financial regulation as well as capital controls to contain the negative consequences of capital flow surges.

The international economic phenomena associated with globalization are quite varied and require specific responses. In so far as some international economic liberalization is inevitable, there is a need to give due consideration to sequencing issues on the one hand as well as pro-active initiatives or supply responses on the other. Developing country governments are barely equipped to deal with the very complicated and detailed agenda associated with globalization. Solidarity and cooperation among such governments have declined significantly since the 1970s, especially on economic issues, ironically when it is most needed. The previous sympathy of some governments in Europe for the developmental aspirations of developing countries has also evaporated. It will be necessary to restore both types of cooperation and mutual support for a viable alternative to the emerging status quo to have any chance of realization. Recent initiatives may well offer the prospect for such cooperation, but much more effort needs to go into these tentative steps. The very existence of international fora, including ostensibly democratic ones, does not, in itself, ensure that developing country interests will be best served—as recent experiences with the WTO have demonstrated.

Finally, one needs to be modest about lessons that might be drawn from particular experiences. This does not imply that no lessons whatsoever can be drawn, but there is a tendency to abstract models for emulation, which often ignore crucial variables, thus rendering such models of little use for policy making. Instead, combining lessons in creative ways from other experiences in ways appropriate to particular circumstances is often a superior way to proceed. This requires deep knowledge as well as considerable modesty about the prospects for replication.

Bibliography

ASIAN DEVELOPMENT BANK (ADB)
Emerging Asia—Changes and Challenges, Manila, 1997.

AKYUZ, YILMAZ, AND CHARLES GORE
"The investment-profit nexus in East Asian industrialisation," **World Development**, Vol. 24, No. 3, 1996.

ALARCON-GONZALEZ, DIANA
"Trade liberalization and income distribution: Lessons for Mexico from East Asia," in J. Borrego, A.B. Alvarez and Jomo K.S. (eds.), **Capital, the State and Late Industrialisation: Comparative Perspectives in the Pacific Rim**, Westview Press, Boulder, CO, 1996.

BAER, WERNER, WILLIAM R. MILES AND ALLEN B. MORAN
"The end of the Asian myth: Why were the experts fooled?", **World Development**, Vol. 27, No. 10, 1999, pp. 1735–1747.

BOOTH, ANNE
"Education and development in Southeast Asia", in Jomo K. S. (ed.), **Southeast Asian Paper Tigers?**, Routledge, London, 2003.

CHOWDHURY, ANIS
"Democracy, economic recovery and human development in Indonesia", Seminar paper, Faculty of Economics and Administration, University of Malaya, Kuala Lumpur (19 January 2001), based on a draft chapter for **Indonesia: The National Human Development Report, 2001**, UNDP/United Nations Support Facility for Indonesian Recovery, Jakarta, 2001.

DEYO, FRED
Beneath the Miracle: Labor Subordination in East Asia, Cornell University Press, Ithaca, 1989.

EASTERLY, WILLIAM
"The middle class consensus and economic development", **Journal of Economic Growth**, Vol. 6, No. 4, December 2001a, pp. 317–336, available at http://econ.worldbank.org/docs/1100.pdf.

____
"Can institutions resolve ethnic conflict?", **Economic Development and Cultural Change**, 2001b, available at www.worldbank.org/wdr/2001/wkshppapers/summer/easterly.pdf.

GANUZA, ENRIQUE, LANCE TAYLOR AND ROB VOS (EDS.)
External Liberalization and Economic Performance in Latin America and the Caribbean, UNDP, New York, 2000.

HIRST, PAUL AND GRAHAME THOMPSON
Globalisation in Question: The International Economy and the Possibilities of Governance, Polity Press, Cambridge, 1996.

ISHAK SHARI
Liberalisasi Ekonomi dan Implikasinya Terhadap Usaha Pembasmian Kemiskinan di Malaysia (Liberalization of the Malaysian Economy and Its Implications for the Eradication of Poverty), Paper presented at a seminar on Rancangan Malaysia Ketujuh: Penerusan Usaha Pembasmian Kemiskinan (Seventh Malaysia Plan: Continuing Efforts for the Eradication of Poverty, Kota Kinabalu, 7–8 May), 1996.

JOMO K. S.
"Globalization and human development in East Asia" in UNDP, **Globalization With A Human Face: Human Development Report 1999**, Background Papers, Vol. 2, Human Development Report Office, UNDP, New York, 1999, pp. 81–123.

____
Globalisation, Liberalisation, Poverty and Income Inequality in Southeast Asia, OECD conference on Poverty and Income Inequality in Developing Countries: A Policy Dialogue on the Effects of Globalisation, (Paris, 30 November–1 December), 2000.

JOMO K. S. (ED.)
Tigers in Trouble: Financial Governance, Liberalisation and Crises in East Asia, Zed Books, London, 1998.

____
Southeast Asian Industrialisation, Palgrave, Houndmills, 2001.

____
Southeast Asian Paper Tigers? RoutledgeCurzon, London, 2003.

JOMO K. S. WITH CHEN YUN CHUNG, BRIAN C. FOLK, IRFAN UL-HAQUE, PASUK PHONGPAICHIT, BATARA SIMATUPANG, MAYURI TATEISHI
Southeast Asia's Misunderstood Miracle: Industrial Policy and Economic Development in Thailand, Malaysia and Indonesia, Westview Press, Boulder, CO, 1997.

KRUGMAN, PAUL
"Dutch tulips and emerging markets," **Foreign Affairs**, Vol. 74, No. 4, 1995, pp. 28–44.

KUZNETS, SIMON
"Economic growth and income inequality," **American Economic Review**, Vol. 45, No. 1, 1955, pp. 1–28.

MILANOVIC, BRANKO
True World Income Distribution, 1988 and 1993: First Calculation Based on Household Surveys Alone, Policy Research Working Paper 2244, World Bank, Poverty and Human Resources, Development Economics Research Group, Washington, DC, 1999.

ORCHAN, T.
Economic Growth, Income Distribution and Poverty in Thailand, paper presented at the Fifth Tun Abdul Razak Conference (Athens, OH, 12–13 April), 1995.

PERKINS, DWIGHT H.
"There are at least three models of East Asian development," **World Development**, Vol. 22, No. 4, 1994.

RODRIK, DANI
Getting Interventions Right: How South Korea and Taiwan Grew Rich, Working Paper No. 4964, National Bureau of Economic Research, Washington, DC, 1994.

SINGH, AJIT
"Openness and the market-friendly approach to development: Learning the right lessons from development experience", **World Development**, Vol. 22, No. 12, 1994.

UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)
Human Development Report 1999, New York, 1999.

WADE, ROBERT
Governing the Market, Princeton University Press, Princeton, 1990.

WEISBROT, MARK, ROBERT NAIMAN, AND JOYCE KIM
The Emperor Has No Growth: Declining Economic Growth Rates in the Era of Globalization, Center for Economic and Policy Research, Washington DC, 2000, available at www.cepr.net/IMF/The_Emperor_Has_No_Growth.htm.

WORLD BANK
The East Asian Miracle, Oxford University Press, New York, 1993.

____
World Development Report 1994, Oxford University Press, New York, 1994a.

____
Averting The Old Age Crisis, Oxford University Press, New York, 1994b.

____
World Development Report 1995: Workers in an Integrating World, Oxford University Press, New York, 1995.

____
World Development Report 1997, Oxford University Press, New York, 1997.

____
World Development Report 1998, Oxford University Press, New York, 1998.

YOU JONG IL
Income Distribution and Growth in East Asia, paper presented at the United Nations Conference on Trade and Development (UNCTAD) conference on Income Distribution and Development, (Geneva, December), 1995a.

Papers on **UNRISD Overarching Concerns**

PP OC 3	**Globalization, Liberalization and Equitable Development: Lessons from East Asia** Jomo K.S., July 2003
PP OC 2	**Needs, Rights and Social Development** Rodolfo Stavenhagen, July 2003
PP OC 1	**Toward Integrated and Sustainable Development?** Solon L. Barraclough, February 2001