

**UNEVEN CRISES: INSTITUTIONAL FOUNDATIONS OF
EAST ASIAN ECONOMIC TURMOIL**

by

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UNEVEN CRISES: INSTITUTIONAL FOUNDATIONS OF EAST ASIAN ECONOMIC TURMOIL¹

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The East Asian economic crisis, as it has developed since 1997, has had disastrous consequences at a number of levels. Most obviously it has led to bankruptcies, collapsing currency values, falling gross domestic product (GDP) and dramatic declines in the living standards of swathes of working and middle class people in those economies that have been most deeply affected.² In so doing it has setback long periods of economic and social development in the region, which in some cases have been amongst the most successful the world has yet known. While it has also led to political upheaval in parts of the region – with Suharto deposed in Indonesia, and Mahathir seemingly destabilised in Malaysia - here and there this has been accompanied by riot, destruction and death.

Globally the East Asian crisis has contributed to a rapid decline in the confidence of portfolio investors in ‘emerging’ markets (that is, poor countries), triggering stock market and currency collapse in parts of Latin America, and most spectacularly in Russia. Additionally, the relative evaporation of East Asian markets for manufactured commodities has compounded the pre-existing saturation in product markets and thus in some cases hastened the withdrawal of foreign direct investment (FDI) and plant closure, including in some of the advanced industrial economies.³ Almost as important as these, the crisis in the region may have sorely damaged the ideological significance of the various East Asian ‘models’ of economic development, representing, as they did, some of the principal - and most effective - capitalist alternatives to Anglo-American ‘free-market’ arrangements.⁴

For these reasons and more, an adequate explanation of the origins of East Asian economic turmoil is as necessary now as was (and continues to be) an explanation of their economic success. A number of contributions to this aim are already in the public domain. Of these, Chang’s work on Korea (Chang 1998, Chang et al 1998), Jomo’s on Malaysia (Jomo 1998a), Wade’s on the international and domestic financial sources and consequences of the crisis (Wade 1998, Wade and Veneroso 1998a, 1998b),

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- 1 Earlier versions of this paper were presented at the Annual Conference of the Society for the Advancement of Socio-Economics, Vienna, July 1998, and as lectures to the Manchester Business School and to the Departments of Politics and East Asian Studies, University of Leeds. I am grateful to participants at those events for their comments. In particular I am grateful to Terence Gomez for discussions of ‘money politics’ in Southeast Asia and for pointing me to sources on Overseas Chinese business networks that I had missed, Laszlo Czaban for clarifying some of the financial issues involved, and Jong-Chul Jeon and Sang-Woo Lee for their help in identifying data sources. Needless to say, however, responsibility for the interpretations and argument developed here, remain mine alone.
 - 2 For a detailed account of the social consequences of the crisis see the International Labour Office technical report (ILO 1998).
 - 3 Examples include the closure in mid-1998 of Siemens’ and Fujitsu’s semiconductor plants in the North-East of England (*The Observer*, 2 August 1998).
 - 4 For an account of the ideological representations of the East Asian newly industrialised countries (NICs) in both neo-liberal and state-orchestrated development policy, see Henderson (1998:357-64)

Kaplinsky's (1998) on the declining competitiveness of many of the 'real' (non-financial) economies in the region, and a number of the essays in Jomo's (1998b) edited volume and in the special issue of the *Cambridge Journal of Economics* (22/6, 1998) being especially important. In this paper I seek to build on their work and in the process elaborate a number of issues that I first broached in an earlier contribution (Henderson et al 1998).

An important premise lies behind the analysis developed in this paper. This is that macroeconomic processes associated with globalisation, such as the deregulation of capital markets (thus allowing international finance capital to go on the rampage) and the pegging of East Asian currencies to the US dollar, though centrally important, were still only partially responsible for economic turmoil in the region.⁵ The argument developed here suggests that to a significant extent the sources of crisis have been internal to the political economies involved, but crucially, there have been important differences in each case. These differences are intimately connected with the institutional capacities of the respective national states to mediate between the international and their domestic economies, and with how and why these have changed over time. As part of this we thus need to explain not merely why the crisis developed in Thailand, Malaysia, Indonesia, Korea etc., and took the particular forms that it did, but also why it has not (or at least not yet) been particularly significant in Taiwan or Singapore (with the exception of limited currency devaluations). To anticipate the paper's conclusion, the crisis, then, tells us a great deal not only about the unfettering of international finance capital and the liberalisation of domestic capital markets, but also – and as importantly – about the asymmetrical presence of the 'developmental state' in the region, and the nature of its evolution and current condition. With the economic crisis in East Asia we are confronted not with a monadic phenomenon, generated by the same causes and for which there are formulaic solutions relevant in each case, but with uneven crises whose resolution will vary depending on the political economy in question.

I begin the paper with the observation that the symptoms of the crisis, as these began to emerge from mid-1997, were not the same in all the affected economies. In Thailand, Malaysia and Indonesia panic took hold when banks, other financial institutions and property development companies began to collapse. Almost all of the companies affected had become financially overexposed as a consequence of their lending, or their mediation of portfolio investment, which in both cases were designed to support speculative investments on stock, but particularly on property markets (*Financial Times*, January 12-16, 1998, Bello 1998, Jomo 1998b). In Korea, however, the symptoms took a very different form. There the problem was not with companies overexposed as a result of speculative activities on property markets etc., but rather with major industrial conglomerates (*chaebol*) who had massively overborrowed from foreign and domestic banks to support their competitive struggles against one another (Chang 1998). In my view these differences were not coincidental, but rather were a direct consequence of the structural evolution of the respective political economies in earlier periods. Much of what follows in the paper constitutes an attempt to explore the nature of the structural differences in the various political economies that had given rise to the different symptoms of crisis.

5 As well as Wade's comments on the former (Wade 1998), see Noriko Hama's apocalyptic comments on the consequences of the dollar peg in Henderson et al (1998).

In the next section I turn to examine directly the incidence of crisis in Thailand, Malaysia and Indonesia. Though not yet 'in crisis' I argue that there are correspondences between these economies and that of Hong Kong. Specifically they have all evolved with structurally weak economies in large part because their respective states have allowed investment to flow into unproductive activities in general, and property market speculation in particular. In the subsequent section I turn for the first time to South Korea. Drawing on Chang's work (Chang 1998, Chang et al 1998), I argue that part of the problem there has been the evaporation of the state's ability to control the relation between international sources of capital and the vast concentrations of private economic power (almost unprecedented in the world) that are the *chaebol*. In the fourth section I pose the question of whether the crisis, at some point in the near future, would have happened anyway. Via an examination of the competitive bases of the respective economies, and in relation to developments in the world economy, I answer in the affirmative. In the penultimate section I switch the analytic focus to Taiwan and Singapore. In their cases I try to show why they have thus far largely escaped the ravages of crisis, and what their escape tells us about the crises elsewhere in the region. In the conclusion I summarise the core of my argument and briefly reflect on the implications of the East Asian crises for national economic governance in a globalising world economy.

Constructing Weak Economies I: Property Markets

Contrary to some accounts of the crisis which imply that the real economies of all the countries in question were relatively strong prior to the onset of investor panic (such as Wade 1998, Wade and Veneroso 1998a), the variations in the symptoms of crisis point to one aspect of an alternative story. That alternative questions the structural robustness of some – though not all – of the real economies concerned. In the first instance it focuses on the role of property markets in some of the cases, and in the second it explores the viability of other bases for growth and prosperity in the region, associated with the nature and development of manufacturing industry and related services. It is to the elements of that alternative account that I now turn.

As the events briefly summarised above indicate, an important difference in the sources and manifestations of economic crisis in East Asia has been the fact that property (and stock) market speculation has been central to the story in Thailand, Malaysia, Indonesia and Hong Kong, but not (or not particularly) in Korea, Taiwan or Singapore. Two questions arise from this observation: why should these differences have been apparent; and what is the relation between property market investment and economic development? I begin with the second issue.

Perils of Portfolio Investment

Any attempt to grasp the relation of property markets to economic development first needs to address the sources of property finance. Bank credit and portfolio investments traditionally have been among the most important sources, in both developed and developing worlds, with portfolio investment in recent years being perhaps particularly significant. As we see below, however, FDI also seems to have been an important component of property investment in at least one of the Southeast Asian economies.

Before moving to discuss portfolio investment in property markets we need to pose the broader question about the relation of portfolio investment to economic development.

In an attempt to encourage developing countries to take advantage of the huge quantities of mobile capital available through pension and investment funds in the industrial economies, an influential report from the World Institute for Development Economics Research (WIDER 1990) argued that those countries should liberalise their financial markets and encourage foreign portfolio investment. By the late 1980s, and often under pressure from IMF/World Bank 'structural adjustment' programmes and the US and other governments, many developing countries in any case had already begun to privatise state companies and create expanded opportunities for portfolio investment flows. The liberalisation of capital markets also was probably seen, in some cases, as a way of shifting state reliance on bank and other credit, onto the private sector, and thus a way of circumventing the crippling foreign indebtedness that had bedevilled national development projects in previous decades. In encouraging portfolio investment flows, the question that does not appear to have been asked by the WIDER group, the Bretton Woods institutions, fellow-travelling economists, and some (but by no means all) of the developing country governments themselves, was whether there was indeed a *positive* connection between portfolio investment and industrialisation. Had this supposed connection been problematised (though the weight of orthodox economic opinion was against such a possibility), then the speculative character and short-term horizons invariably associated with portfolio investment and stock market activity might have been seen as inimical to the long term capital commitments necessary for 'late' industrialisation.⁶ As Singh and Weisse (1998) recognise, in an important critique of the relation between stock markets, portfolio investment and robust development:

‘A long-term investment horizon and *patient finance* are central in late industrialisation, which is above all a long process of institutional and technological adaptation and learning’ (Singh and Weisse 1998: 616 – my emphasis).

As patience is not a well-known virtue of portfolio investors – unless they are disciplined (of which more below) – a further question arises as to whether portfolio investment (and stock market speculation) is a useful supplement to other sources of capital and can be mobilised in the interests of industrialisation and development (or at worst just a harmless money-making activity). After an analysis of the development record in India, Mexico, and other developing economies, Singh and Weisse (1998: 618) emphatically conclude that:

‘...unfettered financial liberalisation, and specifically.....stock market development and portfolio capital inflows, are unlikely to help developing countries in achieving speedier industrialisation and faster long-term economic growth’.

⁶ Among a considerable literature on this issue see Amsden 1989, Wade 1990 and Woo 1991. For critiques of the irrationality of international finance capital, see Strange (1998a, 1998b). For an account of the role of finance capital in East Asia, which in some ways presages its role in the current crisis, see Daly and Logan (1989).

Property Market Speculation

If Singh and Weisse are right, and portfolio investment in general has indeed been problematic for development, then the predilection of portfolio investment to flow into property markets – given their significance in the incidence of crisis in Southeast Asia - requires particular attention. Though data on portfolio investment by sector is hard to access for most East Asian economies, useful data does exist for Thailand. From all we know of recent economic development in the region, Thailand, in this case, can be taken as a reasonable proxy for the other Southeast Asian economies in crisis.

**Table 1: THAILAND: PORTFOLIO INVESTMENT (NET)
BY SECTOR, 1995-97 (Baht, millions⁷)**

	1995	(%)	1996	(%)	1997	(%)
Manufacturing	15,086	(32.0)	19,850	(32.9)	53,947	(47.8)
Finance	643	(1.4)	1,823	(3.0)	3,643	(3.2)
Trade	10,716	(22.7)	14,551	(24.1)	33,361	(29.6)
Property	19,376	(41.0)	20,334	(33.7)	9,081	(8.0)
Others⁸	1,371	(2.9)	3,791	(6.3)	12,800	(11.4)
Totals	47,192	(100.0)	60,349	(100.0)	112,832	(100.0)

Source: *Economic Research Department, Bank of Thailand*

In the years immediately preceding the onset of crisis, the Thai data suggests that property constituted the single most important venue for portfolio investment, attracting a little over 37 per cent of the total for 1995 and 1996. Only with the onset of crisis in 1997 was property overtaken by manufacturing as the principal focus for portfolio investment, when investor interest in the former collapsed (Table 1). What is additionally interesting about the Thai case, however, is that substantial quantities of FDI also flowed into property over the same period. Table 2 indicates that net flows of FDI into the property sector in Thailand exceeded portfolio flows into property, and indeed FDI flows into manufacturing, in both 1995 and 1996 with an average of around 40 per cent of the total for both years. As with portfolio investment, FDI flows into property collapsed in 1997, but continued to flow into manufacturing.

7 Rounded figures and proportions

8 Mining and quarrying, agriculture, services, etc.

Table 2: THAILAND: FOREIGN DIRECT INVESTMENT (NET) BY SECTOR, 1995-97 (Baht, millions⁹)

	1995	(%)	1996	(%)	1997	(%)
Manufacturing	14,114	(28.3)	17,942	(31.2)	44,652	(38.0)
Finance	643	(1.9)	1,823	(3.2)	24,559	(20.9)
Trade	11,112	(22.3)	13,798	(24.0)	28,440	(24.2)
Property	22,152	(44.4)	20,836	(36.2)	8,755	(7.4)
Others¹⁰	1,867	(3.7)	3,073	(5.3)	11,146	(9.5)
Totals	49,888	(100.6)	57,472	(99.9)	117,552	(100.0)

Source: *Economic Research Department, Bank of Thailand*

What then was driving the spectacular expansion of the property sector in Southeast Asia such that even supposedly ‘patient’ and thus non-speculative capital – FDI – was sucked in, in huge quantities? There are at least four elements to an adequate response. In the second and subsequent elements, we begin to answer the other question posed above: the sources of national differences in property market speculation. Before we get there, however, there is a general macroeconomic issue which demands attention.

Twenty years ago David Harvey (1978) elaborated a scheme to explain the periodic rush of investment funds into particular cities.¹¹ He argued that structural tendencies to overaccumulation in the primary circuit of capital (largely manufacturing and related services) were periodically relieved by investment switches into either or both of the secondary and tertiary circuits of capital. The secondary circuit resulted in the development of the urban fabric necessary to sustain accumulation in the primary circuit (office blocks, housing, hotels, transport facilities etc.), whereas the tertiary circuit reproduced the knowledge base necessary for new rounds of accumulation in the primary circuit (education, R&D etc.). Banks, investment houses and other financial institutions were primarily responsible for mediating the switch of investment into the secondary circuit¹², whereas the state was particularly important for mediating switches into the tertiary circuit. While we now know – most importantly from Robert Brenner’s work (Brenner 1998) - that overproduction and declining aggregate profits in the ‘primary circuit’ have been at the root of the ‘long downturn’ in the world economy since the early 1970s, part of Harvey’s genius was to suggest that just as

⁹ Rounded figures and proportions

¹⁰ Mining and quarrying, agriculture, services, etc.

¹¹ Harvey’s work on ‘switching crises’ was further elaborated in his *The Limits to Capital* (Harvey 1982)

¹² Though in some cases the state was also involved, particularly with regard to transport infrastructure and where public housing was a significant component of the housing stock.

there were tendencies to overaccumulation in the primary circuit, so too were there in the secondary (and, in theory, the tertiary) circuit. When these tendencies resulted in crises, the classic symptoms of overcapacity in the 'built environment' occurred: empty office and luxury housing blocks, too many hotel rooms, increasingly desperate discounting of prices, rentals etc. Eventually - should the 'switching crisis' be prolonged - the collapse of asset prices, followed by bankruptcies of property development companies, lending banks etc., and rising unemployment, became inevitable. As we have seen already, all these symptoms were evident in the Southeast Asian economies (Thailand, Malaysia, and Indonesia) and in Hong Kong, prior to the onset of generalised crisis in the former cases. But they were not anywhere near as evident in Taiwan and Singapore, nor even in one of the key crisis economies: Korea (see *Financial Times*, January 12-16, 1998; Chang 1998, Jomo 1998b). For an explanation as to why these differences should have been evident, we need to investigate meso and micro level phenomena and this brings us to our second and third elements.

Social Agents

Whatever the undoubted merits of Harvey's theory of 'switching crises' his scheme implies that investor preferences tend to privilege the primary circuit. While this is usually the case for FDI (though note the important exceptions, as above) it clearly does not hold for portfolio investment. In order to investigate the processes in train here, we need to move to a lower level of abstraction and focus on the social agents involved in the drama. At this point we reach the second element in our analysis. There are two matters here that require exploration. The first concerns the sources of investment flows into the property sector, and what the nature of these sources might tell us about some of the interests, externally and domestically, directing investment in Thailand, Malaysia etc. The second concerns the interests of the political elites in each case.

As with portfolio investment by sector, portfolio investment by country of origin is also difficult to access, though in this case data from Thailand can be supplemented by Malaysian data. Tables 3 and 4 indicate, respectively, the country sources of net portfolio investment in Thailand and portfolio receipts in Malaysia.

With regard to Thailand, Japan was the single most important source of net portfolio investment in the two years preceding the onset of crisis, and in the first crisis year (1997) itself, with an average of around 31 per cent of the total across the three years. The USA was the second most important source with an average of nearly 18 per cent of the three-year total. Interesting, however, Hong Kong and Singapore provided the next most important sources, with an average of nearly 11 and about 8 per cent of the three-year total respectively. Taken together over the 1995-97 period, they displaced the USA as Thailand's second most important source of net portfolio investment (Table 3).

**Table 3: THAILAND: PORTFOLIO INVESTMENT (NET)
BY COUNTRY SOURCE, 1995-97 (Baht, millions¹³)**

	1995	(%)	1996	(%)	1997	(%)
Japan	12,455	(26.4)	16,065	(26.6)	45,438	(40.3)
Hong Kong	6,343	(13.4)	4,536	(7.5)	12,429	(11.0)
Taiwan	2,580	(5.5)	3,384	(5.6)	3,937	(3.5)
Singapore	3,444	(7.2)	5,339	(8.8)	9,401	(8.3)
China	-22	-	98	(0.2)	-224	(-0.2)
Korea (South)	310	(0.6)	481	(0.8)	920	(0.8)
Malaysia	338	(0.7)	474	(0.8)	385	(0.3)
Indonesia	296	(0.6)	249	(0.4)	200	(0.2)
Philippines	15	-	52	-	291	(0.2)
France	1,413	(3.0)	709	(1.2)	775	(0.7)
Germany	953	(2.0)	685	(1.1)	-517	(0.4)
Netherlands	2,159	(4.6)	554	(0.9)	3,367	(3.0)
Switzerland	392	(0.8)	1,322	(2.2)	3,463	(3.1)
UK	967	(2.0)	1,661	(2.7)	5,537	(4.9)
Belgium	-2,466	(-5.2)	1,360	(2.2)	65	-
USA	6,332	(13.4)	12,324	(20.4)	22,431	(19.9)
Australia	676	(1.4)	858	(1.4)	3,736	(3.3)
Canada	15	-	28	-	55	-
Others	10,992	(23.3)	10,170	(16.8)	1,142	(1.0)
Totals	47,192	(99.7)	60,349	(99.6)	112,832	(100.7)

Source: *Economic Research Department, Bank of Thailand*

A better gauge of the significance of the various sources of portfolio investment than net data, is the detail of receipts (inward flows). These data are available for Malaysia.

As with Thailand, Malaysia, for current purposes, can be regarded as a reasonable proxy for the other crisis economies of Southeast Asia.

**Table 4: MALAYSIA: PORTFOLIO INVESTMENT (RECEIPTS)
BY COUNTRY SOURCE, 1995-97 (Ringgit, millions¹⁴)**

	1995 (%)	1996 (%)	1997 (%)
Japan	1,233 (1.1)	717 (0.5)	1,212 (0.8)
Hong Kong	24,109 (22.6)	41,699 (28.8)	38,264 (25.7)
Taiwan	524 (0.5)	908 (0.6)	105 -
Singapore	52,154 (49.0)	70,198 (48.4)	72,298 (48.6)
China	- -	17 -	170 (0.1)
Brunei	74 -	105 -	109 -
Germany	302 (0.3)	400 (0.3)	297 (0.2)
Netherlands	91 -	209 (0.1)	182 (0.1)
Switzerland	465 (0.4)	992 (0.7)	143 (0.1)
UK	12,304 (11.6)	17,656 (12.2)	19,805 (13.3)
Belgium	246 (0.2)	1,526 (1.0)	2,174 (1.5)
Luxembourg	557 (0.5)	948 (0.6)	719 (0.5)
USA	13,778 (12.9)	8,870 (6.1)	10,512 (7.1)
Australia	469 (0.5)	473 (0.3)	448 (0.3)
Canada	53 -	115 -	156 (0.1)
Others	524 (0.5)	908 (0.6)	1,190 (0.8)
Totals	106,414 (100.1)	144,933 (100.2)	148,784 (99.2)

Source: *Cash BOP Reporting System, Bank Negara Malaysia*

From the data in Table 4 it is clear that between 1995 and 1997, by far the most important sources of portfolio investment flowing into the Malaysian economy were from Singapore and Hong Kong, with averages of nearly 49 and 26 per cent respectively of the three year total. Taken together, then, Hong Kong and Singapore were responsible for a staggering threequarters of all portfolio investment flowing into Malaysia during this period. Bearing in mind that financial institutions in Hong Kong and Singapore – given that they are respectively the second and third most important financial centres in Asia – in part must have served as ‘mere’ intermediaries in transactions originating elsewhere; and that some of the funds flowing from Hong Kong would have originated in China, what are we to make of these data?

In all three Southeast Asian economies and in Hong Kong, investment switches into the secondary circuit have certainly been associated intimately with the activities of foreign (and particularly Japanese) banks, as previous work on the crisis has shown (eg. Bello 1998, Wade 1998). However, the prominence of Hong Kong and Singapore in the data assembled in Tables 3 and 4, suggests that they also have been associated with a subsidiary, though important agent: Overseas Chinese companies mobilising their business networks in the region.

Arising out of the ‘neo-modernisation’ paradigm in development studies (especially Berger 1986) and initially obsessed by the supposedly cultural determinants of Chinese business acumen,¹⁵ commentary on the business networks of the ‘Overseas’ Chinese has been something of a growth industry in recent years (eg. Wong 1988, Redding 1990 and more critically, Yoshihara 1988, Seagrave 1996, Hodder 1996, Gomez 1998, Yeung 1999). Around 29, 10 and 3 per cent of the populations of Malaysia, Thailand and Indonesia respectively are of Chinese origin. In proportional terms (unless we include Taiwan) the principal concentrations are in Hong Kong and Singapore with around 98 and 77 per cent respectively. While the vast majority of these populations are working class, or are engaged in small-scale manufacturing and commercial operations, they contain within them the branches of large trading, banking, hotel and real estate conglomerates that span the region and beyond. In many cases they have close business relationships with national and local political elites¹⁶ and in any case tend to dominate the domestic economies of the respective countries. Thus in terms of market capitalisation ethnic Chinese interests are estimated to control 61 per cent of share capital in Malaysia and 81, 73 and 81 per cent of listed companies in Thailand, Indonesia and Singapore respectively (East Asia Analytical Unit 1995: 40-41, 49, 69, 74). Furthermore, the data assembled by Yeung (1999, Table 1) suggests that the principal concentrations of Overseas Chinese companies in Asia, in terms of total assets (1994), are in Hong Kong (US\$173 billion), with Thailand, Singapore and Taiwan some way behind (US\$89-95 billion in each case). Given that Taiwan, since the demise of Hong Kong’s manufacturing sector, now hosts far greater concentrations of Overseas Chinese capital in manufacturing than any of the others, Yeung’s data, ‘mapped’ with the data in Tables 3 and 4, supports the widespread contention that Hong Kong and Singapore are the fulcra of the Overseas Chinese business empires.

15 In Berger’s hands culturalist explanations surfaced as a form of inverted racism. Witness the following comment: ‘..it is inherently implausible to believe that Singapore would be what it is today if it were populated, not by a majority of ethnic Chinese, but by Brazilians or Bengalis – or, for that matter, by a majority of ethnic Malays.’ (Berger 1986: 166).

16 Certainly in Indonesia and Thailand, but less so in Malaysia.

Though it is widely assumed that some of the Overseas Chinese conglomerates have triad connections and are involved in the laundering of drug money (Seagrave 1996, Part 2),¹⁷ it is clear that of all their business activities (with the sole exception of Taiwanese companies) they have a predilection for real estate development and property market speculation. Case studies of major Hong Kong and Southeast Asian Chinese business families undertaken for the Australian Government (East Asia Analytical Unit 1995), for instance, clearly indicates the significance of property development in their corporate portfolios. Additionally, Ko and Redding's (1998) analysis supports the conclusion that large Overseas Chinese companies in Hong Kong have a strong preference for property market activities. Their data indicates that of all the companies listed on the Hong Kong Stock Exchange during the twenty-year period beginning in 1975, an average of 35-40 per cent of them were engaged in property development and rentals. Additionally of the 112 firms with a second business interest, 60 per cent of them had second businesses in real estate. Furthermore, where manufacturing was the primary business interest, and subsequent diversification took place, that diversification was overwhelmingly into property market activities but interestingly, in the light of the argument developed below, not vice versa (Ko and Redding 1998). In the case of Thailand, Pasuk and Baker (1997: 163) note that as the real estate market took off after 1987, most of the funds were domestically generated, but Hong Kong was the most important foreign source. Some of the principal beneficiaries, however, were Sino-Thai families. These included the Karnchanapas family who were originally from Hong Kong and became the most aggressive players in the real estate boom of the period. By the early 1990s they were estimated to have become the wealthiest business family in Thailand (Pasuk and Baker: 163).

What the Southeast Asian economies – and that of Hong Kong - seem to have been confronted with, then, was a strong propensity of mobile capital – partly worked through the regional networks of Overseas Chinese conglomerates – to flood into essentially unproductive economic activities. The consequence of this was that tendencies towards the construction of weak economies in the region were compounded. While I address the nature of these tendencies in the following section, the question that arises here is why were these conglomerates (together with Japanese and other financial institutions) not subject to investment 'discipline' by the respective national states, as they clearly were in Taiwan and Singapore (of which more below). In my view the answer is closely connected with the relative absence of an institutional capacity and competence capable of influencing the sectoral trajectory of inward and domestic investment flows. As such it is connected to matters of political interest and will.

In the debates on the sources of the East Asian crisis, academic and media commentators alike have paid considerable attention to political-economic corruption or 'crony capitalism'. While work to which this paper is otherwise sympathetic (eg. Wade 1998) has tended to dismiss such arguments in order to place the blame squarely on international financial capital and the neo-liberal regime of global economic governance under which it operates, such rejections are premature. While political-

17 Indeed it seems likely that Chinese state and military-owned trading companies, operating from Hong Kong, have similar 'business' interests (see Bernstein and Munro 1997).

economic corruption is endemic in East Asia¹⁸ – with the major exception of Singapore and still, probably, Hong Kong – it has had asymmetrical consequences for development in the region and has contributed to the uneven nature of the current crisis. At a minimum, a distinction needs to be made between, on the one hand, political elites and regimes that favour particular firms and business interests as a means simultaneously to *both* personal financial gain *and* industrialisation and development (what we might call ‘developmental corruption’) and on the other those for whom financial gain is the *primary* interest and development a *secondary* or indeed unintended consequence (or ‘acquisitive corruption’). While political-economic corruption in Korea and Taiwan (and Japan) clearly has had the characteristics of the ‘developmental’ form, that has not been the case in the Southeast Asian economies, though in varying degrees and with varying effects.

The recent economic development of Thailand, Malaysia and Indonesia as been attended, in general terms, with acquisitive corruption: namely with the blatant and largely unproductive rent-seeking of their political elites (Gomez and Jomo 1997, Hewison 1997, Robison 1997). This has had two consequences for the respective political economies. Firstly, these elites, both on their own and as a result of their association with Overseas Chinese business interests have encouraged the flow of domestic and foreign investment into speculative activities, such as stock markets and particularly real estate as the data in Tables 3 and 4 confirm. A corollary to this is that these elites have had little interest (material or otherwise) in developing the regulatory mechanisms necessary to divert investment into productive activities such as manufacturing and related services (for these tend not to deliver high returns in the short term). While significant manufacturing sectors have emerged in Malaysia, and to a lesser extent Thailand, this has been largely a consequence of FDI from Japan, USA etc. and more recently Taiwan (Lim and Pang 1991, Rasiah 1995, Ismail 1995). Domestically owned manufacturing continues to be under-represented.

There are two riders to this argument about the rent-seeking activities of domestic political elites. The first of these concerns Malaysia. The drive to industrialisation there, since 1971, has been led by state-sponsored FDI. While the use of foreign investment may have been partly a consequence of the Malay-dominated Government’s desire to avoid the further enhancement of Malaysian Chinese economic power (Jesudason 1989), industrialisation – at least until the late 1980s - was a product of a relatively coherent industrial strategy (the ‘New Economic Policy’). Uniquely in the annals of Asian industrialisation, it was also a strategy that involved a conscious attempt to redistribute wealth as a necessary component of economic development. While redistribution involved such things as employment quotas for *Bumiputeras* (Malays and ‘indigenous’ peoples), part of it involved the creation of state and UMNO (the principal governing party) holding companies, the most significant of which - HICOM (Heavy Industries Corporation of Malaysia) - has been responsible for major joint-venture operations in steel, automobiles (Proton) etc. While these operations have been relatively unsuccessful, continue to be heavily dependent on foreign (largely Japanese) inputs, and to some extent are institutional contexts for acquisitive

18 As in the past it has been in the US and other Western economies and remains a potent influence in Italy and perhaps other EU economies. In terms of sheer scale, however, political-economic corruption (particularly at local and provincial levels) seems to have reached its historical zenith in China.

corruption, they have been representative of a serious attempt by the state to channel investment into productive activities and thus attempt to build a robust industrial economy.

The second rider concerns Hong Kong. While the colonial and current SAR (Special Administrative Region) governments' failings as political-economic regimes cannot be traced to acquisitive corruption, and while they have clearly subsidised the reproduction of labour power, wage costs, and thus accumulation (Castells et al 1990, Part I, Schiffer 1991)¹⁹, they have not been involved in any of the attempts - typical of their Northeast Asian neighbours - to direct investment into productive activities. There have been two consequences of this. Firstly, the domestically-owned small to medium sized firms which dominate manufacturing industry in Hong Kong, have had few government incentives or pressures to influence their activities and consequently have historically underinvested in technology and innovation. More recently they have been allowed to disinvest there in order seek-out the almost unlimited possibilities for cheap, labour intensive production in China. They have thus been able to escape the economic pressure for upgrading that would otherwise have come from the colony's/SAR's tight labour market (Henderson 1994). Secondly, the relatively unfettered flow of domestic and foreign funds into property markets, that have been at the core of the territory's business cycle since the early 1970s – as well as its current crisis – have been a consequence not so much of economic ideology, but rather of the fact that Hong Kong Government has had an historic material interest in property market inflation, by virtue of its monopolisation of land ownership and the significance of this to its revenue generation (Henderson 1991)²⁰

Economic Bureaucracies

The fourth element in the jigsaw has been the relative capacities of state economic bureaucracies in the region to regulate and direct investment flows, and more generally to orchestrate economic development. As will be clear from the thrust of the comments above, in the case of Thailand and Indonesia that capacity was never developed in an effective way, though the Malaysian record makes stronger claims to the model pioneered by its Northeast Asian neighbours. Furthermore in an ambitious cross-national attempt to demonstrate the relationship between effective 'Weberian' state bureaucracies and economic growth, Evans and Rauch (1997) have shown that on a range of indices (meritocratic recruitment, promotion criteria, career stability, salaries etc.) the more autonomous, technically proficient, coherent and authoritative economic bureaucracies of Korea, Taiwan and Singapore correlated positively with their record of economic development (for more detail on Singapore, see Koh 1997). On the other hand, the less impressive performance of Malaysia and Thailand, also correlated positively with their less effective state institutions and economic bureaucrats (particularly in the case of Thailand) as gauged against Evans and Rauch's 'Weberian' ideal. Although the Evans/Rauch work does not include Indonesia, it seems clear that

19 Particularly through the provision of public housing

20 Since the early 1970s the Hong Kong Government's sale of leases on land for development purposes has generated, on average, in excess of a third of its annual revenues. This has been the highest proportion of non-taxation derived revenues in the capitalist world (Schiffer 1991). It has allowed the Government to subsidise wage costs/accumulation, education and health care etc. while maintaining very low rates of personal and corporate taxation. In turn this has encouraged the flows of inward investment (Henderson 1991).

there, as in Thailand and Malaysia, limited state capacities have produced comparable failures, including the failure to deflect the counter-productive investment flows indicated above.

In Thailand, with a manufacturing contribution to GDP of about 31 per cent by 1993 (Jomo et al 1997, Table 4.1: 56), some of the institutional trappings usually associated with a state developmental capacity did emerge as an adjunct to import substitution industrialisation (ISI) from the 1960s onwards. The National Economic and Social Development Board (NESDB), for instance, was created to prepare five-year indicative economic plans and the Board of Investment (BOI) constituted an attempt by the state to oversee the course of economic development. However, policy formation was dominated by the Bank of Thailand and the Ministry of Finance and their obsessions with macroeconomic stability (and hence caution) ensured that industrial policy was very much the 'poor relation'. Furthermore ISI strategies that did emerge were cut-through with clientism and unlike companies in Korea and Taiwan, Thai companies benefiting from these strategies were not subject to performance criteria. Additionally, the late development of Export Oriented Industrialisation (EOI) strategies in Thailand – only from the mid 1980s (compared to the mid-1960s in Korea and Taiwan, and the early 1970s in Malaysia) – was intimately associated with the implementation of World Bank/IMF structural adjustment policies and hence with the neo-liberal impulses underpinning them. Thus by 1990 the Thai Government was beginning to liberalise and eliminate controls of foreign exchange transactions and capital movements; two elements that had been important to the Northeast Asian developmental model.

In any case by the time of the Prem regime in the 1980s there had been an extraordinary proliferation of bodies involved, in some way, with economic policy formation. Thus in addition to the Finance Ministry, the Bank of Thailand, the NESDB and BOI, at least four others emerged²¹. To complicate matters further, the Chatichai and Anand regimes of the late 1980s and early 1990s effectively sidelined the formal agencies (except the Ministry and the Bank) with the appointment of personal economic advisors. The consequence was that the economic bureaucracy was fragmented, uncoordinated and had limited technical capabilities (Jomo et al 1997: 75, Hewison 1997). Unsurprisingly, then, it was prone to vacillation in decision-making, subject to corruption and stymied by the need to constantly negotiate competing political and business interests.

On top of all this, as the most authoritative study of Thailand's recent economic development notes (Muscat 1994: 261), successive Thai governments simply did not have the credibility or the authority to engage in the market leading activities typical of its Northeast Asian neighbours. Indeed it appears that the bureaucrats themselves were sceptical of their abilities to perform such a role. The Thai state, in other words, seems neither to have been equipped with the institutional ability, nor the desire, to discipline business in the interests of deepening of its development project. Consequently, while it did take a leading role in the development, from the 1980s onwards, of petro-chemical, steel and other industries associated with the 'Eastern Seaboard' programme

21 The Council of Economic Ministers, the National Economic Policy Steering Committee, the Joint Public-Private Sector Consultative Committee and the Eastern Seaboard Development Committee (Muscat 1994).

on the Gulf of Thailand, in essence it was far more *laissez faire* – by default as much as by design – than its Northeast Asian counterparts. As a consequence it did not lever companies in the interests of technological upgrading, it did not in any significant way direct credit, it dismantled capital market controls, and fatally – as we saw in the previous section – it failed to deflect investment away from unproductive activities.

Among all the high performing East Asian economies, Indonesia has remained industrially the least advanced. While prior to the onset of crisis there was certainly impressive growth in GDP and GDP per capita - with the former averaging nearly 7 per cent per annum in the 1989-93 period (Jomo et al 1997, Table 6.2: 127) - skill upgrading, the alleviation of poverty etc., it has remained the case that economic and social development has been something of a veneer. Indeed, of all of the Southeast Asian societies (together with the Philippines during the Marcos regime and Burma [Myanmar] throughout the period), Indonesia has come closest to approximating what Peter Evans (1995) calls a ‘predatory state’.

The euphemistic ‘guided economy’ developed by the Sukarno regime subsequent to decolonisation, riven as it was with rent-seeking by state officials (particularly in terms of their use of state companies), generalised and ingrained political-economic corruption and macroeconomic chaos, in many ways set the foundations for the economic development that was to follow. The brutal birth of the Suharto regime in the mid-1960s (over half a million slaughtered by the military) and the creation of the military-state’s own political party, Golkar, heralded a ‘New Order’ whose fundamental feature was that:

the source of political power and political leadership (lay) within the state apparatus itself, and that political power and bureaucratic authority (were) appropriated and integrated by the officials of the state. (Robison 1993: 45)

Even though the course of economic development in Korea (1961-87) and Taiwan (1949-88) had been overseen by military regimes (with Taiwan, in fact, under martial law for most of the period), and the military in Thailand were an ever-present force in politics, in their cases the bureaucracy operated within a rational legal framework, and in the former two, with substantial autonomy from the political process. This was not the case, however, in Indonesia. There the economic bureaucracy became Suharto’s personal preserve, with a proliferation of agencies such as the National Economic Planning Board, the Investment Co-ordinating Board, the State Logistics Board and the Technology Research and Development Board under his direct control (Robison 1993: 48, Robison 1997). While, in this context, economic bureaucrats played with initiatives typical among their Northeast Asian counterparts – state funded industrial projects, development and protection of upstream industries such as steel and petrochemicals etc. – they did so in the interests of appropriating state resources on behalf of particular political and business interests (in the later case, mainly Sino-Indonesian and *Pribumi* – ‘native’ - conglomerates and companies owned by members of the Suharto family). Thus in Indonesia, the politico-bureaucrats certainly had an interest in capital accumulation, but only as long as a significant proportions of it accumulated into their own and their cronies’ bank accounts.

The upshot of this was that industrial policy, such as it was, was invariably ad hoc and - by design or incompetence - was largely geared to short-term material gain, even where manufacturing projects such as automobiles or Habibie's ²²'high-tech' initiatives (civil aircraft etc.) were involved (Jomo et al 1997: 131-2). As Hill (1996) notes, none of the policy instruments typical of the Northeast Asian economies (directed credit and selective protection conditional on meeting performance standards) were employed in Indonesia. Thus there, as in Thailand, no effective state capacity was developed that was capable of leveraging business in the interest of industrial deepening, technological upgrading, or indeed of guiding investment into productive activities and away from the easy (and lucrative) business of speculation.

By 1995, manufacturing industry in Malaysia was accounting for over 33 per cent of GDP and over 25 per cent of employment (Jomo et al 1997, Table 5.1: 90). By that time the country had developed the 'deepest' industrial structure of any of the Southeast Asian societies except Singapore, but in the light of the discussions above and below and the experience of the Northeast Asian economies, that is not saying a great deal.

As with the other East Asian economies discussed here (except Hong Kong and Singapore), the Malaysian government, after 1970, built an export-oriented industrialisation strategy alongside a pre-existing ISI strategy. In its case, however, the catalyst for EOI was inter-ethnic riots in 1969 and a subsequent desire to accelerate industrialisation and redistribute wealth – as a pre-condition for ethnic harmony – at one and the same time. In furtherance of the aims of the resultant New Economic Policy (NEP), the Malay-dominated state turned not to the indigenous small and medium-sized manufacturing companies, for they were owned by ethnic Chinese, but to foreign capital (Jesudason 1989). Thus for example in the 1980s, when the Mahathir regime decided that a 'national car' was required, it did not intervene to rationalise, technologise and upgrade the 21 auto assemblers (of imported kits) already in the country – for they were all Chinese-owned – but rather invited Mitsubishi into a joint-venture with the state-owned Heavy Industries Corporation of Malaysia (HICOM), an arrangement where the former remains firmly in the driving seat and the national car (Proton), technologically outdated.

Along with the NEP came the institutional trappings of what, for a while, began to look like a 'developmental state'. In addition to the relevant Ministries (Trade and Industry - later, International Trade and Industry, consciously aping, but a pale reflection of, its Japanese counterpart - Finance, and Science, Technology and the Environment), there emerged the Malaysian Industrial Development Authority (MIDA), the Economic Planning Unit (EPU), various provincial development corporations, and the state holding companies such as HICOM, PETRONAS (petrochemicals), Sime-Darby (trading, rubber etc.). The problem with all this, as Lubeck (1992) and Jomo et al (1997, Chapter 5) have cogently argued, was two-fold. Firstly, unlike the Northeast Asian societies and Singapore, but rather like the other Southeast Asian cases, the economic bureaucracy in Malaysia was highly fragmented and at its core – the EPU – dominated, as part of the Prime Minister's office, by the whims of Mahathir and his cronies. The technocratic elite remained weak and any efforts to rationalise industrial policy were consistently undermined by the political elite's own

22 At the time of writing (Autumn 1998), Habibie is currently the Indonesian President.

interests, including their personal financial interests (Gomez and Jomo 1997). The consequence has been a relative absence of linkages between the industries spawned by the ISI and EOI strategies and thus an inability of the economy to benefit from the synergies and spin-offs that could have been expected. Little serious technological upgrading has occurred in domestically-owned companies (a minuscule amount equivalent to about 0.4 per cent of GDP was spent on R&D in 1992) and evidence of adequate skill development – necessary for technological upgrading – is slim (Lall 1995, Jomo et al 1997: 112-18).

In the case of Malaysia, then, a ‘semi-developmental’, or what Evans (1995) calls an ‘intermediate’ state, did emerge subsequent to 1970. There, however, the economic bureaucracy ultimately was too weak and politically constrained to develop and implement the sort of policy regime that would have been necessary to deepen the industrialisation project. In any case the overriding goal of industrial policy was not industrial deepening, but rather redistribution, and with it the expansion of opportunities for political rentierism. Thus whatever the promise of Malaysian attempts to emulate the East Asian development ‘model’ – and that promise was far greater than in Thailand and Indonesia - it seems clear that the state-institutional elements of the Malaysian version of the model have been ‘still-born’.

The issue of the economic bureaucracy and industrial policy in Hong Kong provides an interesting contrast to both the Southeast and Northeast Asian cases. Ideologically-driven neo-liberal commentary (most infamously Friedman and Friedman 1982) notwithstanding, it is now clear that Hong Kong, under the British colonial regime, did evolve a variant of a semi-developmental or ‘intermediate’ state (Castells et al 1990, Part I, Schiffer 1991, Henderson 1991). In its case, however – as I have indicated above - its *dirigiste* elements were largely confined to land ownership, the provision of factory space, and the subsidisation of the reproduction of labour power (particularly by creating, as a proportion of the population housed, the second largest public housing system in the capitalist world after Singapore). It did not seek to regulate capital flows, generate pro-active industrial policy, subject companies to performance standards, drive technological upgrading and the rest. In particular, in no sense did it seek to limit or deflect speculative investments. As a consequence, as well as for the other reasons indicated in earlier sections, speculation in real estate markets has now become the bedrock of the economy. Interesting, however, the onset of financial crisis since 1997 has propelled new initiatives by the Hong Kong SAR Government. In order to support stock market values and thus dampen pressure on the currency link to the US dollar, it appears that the Government’s Monetary Authority has been acquiring stakes in some of the SAR’s major conglomerates. The Government is reported now to hold, for instance, around 10 per cent of the equity of the Hong Kong and Shanghai Banking Corporation, 11 per cent of the British-colonial conglomerate, Swire Pacific and 9 per cent of Li Ka-shing’s flagship conglomerate, Cheung Kong (*Financial Times*, September 1, 1998). While this is hardly nationalisation ‘through the back door’, symbolically and substantively, it does represent a significant move away from the former colonial government’s *laissez faire* commitments in this area of the economy.

In spite of the significance of property markets to the ‘health’ or otherwise of the Hong Kong economy, the preponderance of investment in this sector has not been as damaging to the prospects of economic development and prosperity there as it has

been in the Southeast Asian cases. The reason for this is that for a considerable period – at least since the early 1980s – it has been inappropriate to consider Hong Kong as an economy distinct from that of China. Consequently although industrial deepening remained limited (in spite of the fact that Hong Kong was the second economy in Asia, after Japan, to industrialise), and in recent years the manufacturing sector has been subject to massive disinvestment, the Hong Kong economy has survived and prospered because of the service functions it performs for the Chinese economy (trading connections, managerial expertise, finance, professional skills etc.). China, in other words, provides the manufacturing and heavy industry base which props-up the Hong Kong economy. Its economic viability, then, is probably more dependent now on China's continued development (including technological upgrading) as an industrial economy (though that is by no means certain), than it is on the whims of property speculators.

If the encouragement, or failure, to deflect investment from flowing into unproductive activities such as real estate and stock market speculation, was a central component of the crisis in the Southeast Asian economies and Hong Kong, what of the other principal site of economic turmoil in the region: Korea? It is to the origins of crisis there that we now turn.

Deregulation, Big Business and the Demise of the Developmental State

Subsequent to the post-war rise of Japan, Korea became perhaps the classic developmental state. Central to its developmental capacities were authoritarian regimes, with relatively autonomous economic bureaucracies, capable of mediating - especially financially - the relation between the domestic and international economies (Woo 1991). The state encouraged the expansion of huge conglomerates (*chaebol*), which were family-owned, managed in a semi-militaristic style and which aggressively competed with one another in a range of industries, and for ever greater market share. Additionally the state suppressed organised labour (until 1987), sought-out, adapted and disseminated foreign technologies, fed subsidised credit through state-owned banks in support of particular industrial initiatives, subjected those in receipt of credit to performance standards, engaged in capital controls, selectively protected the domestic market etc. etc. (amongst a considerable literature, see for example, Amsden 1989, Chang 1994 and Kim, E.M. 1997). While this form of state-led development may have prospered in part because it was tolerated – indeed supported – by the US Government which was concerned to see South Korea built as a 'bulwark against bolshevism' (particularly its Chinese and North Korean forms), though seemingly only '...as long as it remained in the interstices of global capitalism' (Woo 1991: 202)²³ – of which more below – it seems clear that South Korea evolved a form of capitalism that in the time-frame under consideration (mid-1960s to 1997) was able to deliver one of the most spectacular development records the world has yet seen.

23 It is worth reminding ourselves, however, that the weight of orthodox economic opinion until the onset of the current crisis assumed that the Korean economy approximated the neo-liberal ideal. How else could such opinion explain its spectacular economic growth given that in the lexicon of neo-classical theory, economies with state-distorted markets could not develop *a priori*! For one of the more ideological statements along these lines see Depak Lal's diatribe against development economics and in particular his comments on Korea's supposedly 'virtually free' markets (Lal 1983)

Unlike the cases of the Southeast Asian economies and Hong Kong, however, it appears that property market speculation did not figure prominently in the onset of crisis in Korea. I say ‘appears’ because the data that would give us some purchase on the significance of property markets in the overall picture is unavailable, and none of the authorities on the Korean economy who have commented on the crisis have raised this as a significant factor. However, it is clear that in terms of the inflow of foreign portfolio investment (FPI) Korea was not unlike the other crisis economies. For instance, while FDI into the economy increased from \$7.2 billion in 1990 to 19.5 billion in 1996, FPI in the same years increased from \$9 billion to nearly 121 billion (Jin 1998, Table 4). Given the rapidity of urban development in Korea, and the region more generally, during this period, it seems likely that a significant proportion of these funds did flow into property market speculation, as well as infrastructural development. Additionally, by the late 1980s, there were strong rumours in the country that the top 30 *chaebol* owned 65 per cent of urban land and had invested \$16.5 billion in land speculation and luxury hotels²⁴. Given such concentrated private ownership of land, Korea would have been peculiar economy indeed if profits, bank loans, portfolio investment, or some combination of the three, had not been used for speculative purposes, particularly in the light of the relaxation of state ‘discipline’ that emerged from the early 1990s (see below). Irrespective of the incidence of property market speculation, however, what is clearer is that speculation in housing markets was not as significant a component of the onset of crisis as it was elsewhere. At least until the early 1990s the state sought to depress speculation and constrain housing prices (and thus, indirectly, subsidise wages) by placing price ceilings on smaller housing units and controlling the construction of larger units by restrictions on housing finance, planning permission and executive power (Kim, W.J. 1997: 147).

While the true story of role of property markets and portfolio investment in Korea’s economic demise will have to await further research, it seems clear that the internal dynamics of the country’s slide into turmoil were very different from its Southeast Asian counterparts. While in the latter the slide was intimately connected with their inability (or lack of interest) in developing effective developmental states, in the former it was closely related to the decline in the state’s former substantial capacities to mediate between the domestic economy – principally by way of controlling the activities of the *chaebol* – and the international economy.

Some of the work on East Asian development has suggested that authoritarian, non-democratic states have been a necessary precondition for successful ‘late industrialisation’ in the region. The argument has been that such state forms were able to avoid the destabilisation or deflection of economic policy that can sometimes result from the internalisation into the political process of the contestation and conflict of interests typical of Western-style democracies. As a consequence they were able to override competing interests, disciplining both business and labour as necessary in the interests of national economic goals. Even where formal democracies had emerged in East Asia – such as in Japan, Singapore and Malaysia – they seemed to be unlike their Western counterparts and in Johnson’s (1982) famous phrase remained at least ‘soft authoritarian’.

24 *Business Korea* (February 1991: 43), cited by Bello (1998). Additional information from Jong-Chul Jeon, Manchester Business School.

While estimates of the concentration of economic power in Korea (with the top 30 *chaebol* supposedly responsible for 80 per cent of GDP by the mid-1980s) were probably overdrawn, it seems likely that by the 1980s some *chaebol* were beginning to see their strategic interests as being better served by a selective relaxation of state regulation of their market activities. With the onset of formal democratisation in the late 1980s, and particularly after the election of Kim Young Sam as President in 1992, such relaxation became a fact of economic policy.

With the end of the Cold War - which had helped induce US toleration of Korea's state-directed capitalism - and the arrival of Korea as a significant industrial power, the Korean Government began to come under increasing US and IMF pressure to deregulate its economy, and particularly the financial system. Impulses towards deregulation, however, were not only external. Partly out of a desire to prepare for OECD membership – and thus a need to be seen to be a 'good citizen' of the world economy – the Kim Government itself began to perceive the supposed 'wisdom' of freer market arrangements. The fact that this coincided with the growing influence of US-trained economists in the Ministry of Finance²⁵ may not have been a coincidence.

A major casualty of the process was the Economic Planning Board (EPB), which had been Korea's equivalent, in terms of policy formation and implementation, of Japan's Ministry of International Trade and Industry. In 1994 the EPB was absorbed into the Ministry of Finance, effectively emasculating its ability to engage in long term strategic planning²⁶. Additionally, while Korean Governments had been masterly exponents of what I have called above, 'developmental corruption', the preferential treatment (support for strategic initiatives, subsidised credit etc.) which this entailed had previously been directed to the *chaebol* in general. With the Kim Young Sam regime, however, preferential treatment began to be directed to particular *chaebol* as evidenced by the support given to Samsung to develop an automobile division (despite objections from the Ministry of Trade and Industry²⁷) and Hanbo, a steel industry (Chang et al 1998).

While the termination of industrial strategy, signalled by the treatment of the EPB, may well presage more damaging long term consequences for the economy, the most important consequence of deregulation in the short to medium term was that state control over the *chaebol's* access to finance was abandoned. Like an alcoholic in a wine cellar, leading *chaebol* rushed to drink of the funds the foreign (mainly Japanese) and domestic banks (principally new – since 1994 - and unsupervised merchant banks²⁸) were more than willing to supply. While some of these funds were probably used for speculative activities, the bulk of them were almost certainly used to feed the determination of the heads of the *chaebol* (still largely family-owned and controlled) to out-compete one another. Unlike the loans (largely from state banks) that had been a principal source of capital in earlier periods, these new loans were subject to short-term payback clauses. The consequence was not only debt-equity ratios that were

25 Personal communication from a former employee of the Ministry of Finance.

26 Source as with footnote 19.

27 Source as with footnote 19.

28 Jin (1998) shows that by the third quarter of 1997, 19 or the 24 merchant banks established after 1994 (in fact, converted from investment and finance companies) had amounts of non-performing loans that were larger than the value of their own capital!

unsustainably high, even by East Asian standards²⁹, - approaching by the end of 1996 and in the case of some of the less prominent *chaebol*, 21:1 for Halla, 32:1 for Sammi, and a staggering 86:1 for Jinro (Jin 1998, Table 6). Once Hanbo (14th largest *chaebol*) had been declared bankrupt in January 1997, Sammi Steel (part of the 26th largest *chaebol*) in March and Jinro (19th largest) in April (Jin 1998) the Korean cat was well and truly out of the - by now – foreign dominated financial bag. Creditors panicked, a scramble to recover debts ensued, the value of the won collapsed – making debt repayments even more unlikely, the IMF arrived and the Korean ‘miracle’ seemed after all to have been but a mirage.

While the exogenous developments associated with the globalisation of ‘mad money’ (Strange 1998b) were as significant in the onset of the crisis in Korea as they were elsewhere in the region, the endogenous processes were different in Korea. Whereas the Southeast Asian economies slid into crisis is part because they had undeveloped or stillborn developmental states, in Korea the problem was that its formerly highly effective developmental state, confronted as it was by pressure from the US and from the concentrated economic power of the *chaebol*, was systematically dismantled during the 1990s. In none of the Asian crisis countries can the problems be traced to the over-regulation of their domestic economies. In all of the cases, but most spectacularly in Korea, a principal determinant – at the global economic moment it mattered most – was, on the contrary, *under*-regulation.

Constructing Weak Economies II: Innovation and Technological Upgrading³⁰

In addition to the structural weaknesses of developing economies built on property market and other forms of speculation, the question arises as to whether the manufacturing sectors in the Asian economies in question were especially robust. While it is clear that all of the economies with which we have engaged have significant manufacturing industries in terms of contribution to GDP, employment and exports, what is unclear is whether they are likely to be able to pull-off the ‘Japanese trick’ and haul themselves up the global economic league table by means of innovation, technological upgrading and hence a movement into higher value-added, skill-intensive products and processes. If they were on course to such a future, then the current crisis – in as far as it has deflected them from that course – will have been a catastrophe in the long term, as well as the short to medium terms. If they were not on such a course, then the slow down and perhaps reversal of their growth trajectories – together with all that this would have implied for generalised prosperity, social order etc. – would have happened in the near future anyway, irrespective of the antics of international finance capital.

With the exception of a few dissenting voices (most famously Krugman 1994), the vast majority of academic and media commentators, both Western and East Asian and of whatever political or paradigmatic stripe, assumed that when it came to East Asian industrialisation, the only way (with the exception of the odd basket case – the Philippines in the 1980s, Burma [Myanmar] throughout the period) was up. Japan, in

29 Though 1:1 debt-equity ratios would normally be regarded as unacceptably high by Anglo-American standards, Japanese, Korean, Taiwanese and probably other East Asian companies – importantly backed by secure, long-term credit – had thrived on debt-equity ratios of 3:1 or even 5:1.

30 The first part of this section draws on arguments developed in Henderson (1998: 375-77).

other words, was only unusual in the sense that it was merely the first of the Asian economies to join the ‘big league’. When it came to the role of technology and innovation in this process, many commentators relied on what came to be called the ‘flying geese’ model of development. First proposed by the Japanese economist Akamatsu Kaname in the 1930s, the flying geese analogy has been used in recent decades to suggest that the developing economies in East Asia were likely to follow, one after the other, Japan’s lead. More specifically, it was argued that just as Japan had first combined cheap but relatively skilled labour with foreign technologies to produce low valued-added commodities (garments, cheap electronic products etc.) for export, and then moved on to produce more capital-intensive, higher value-added products which were associated with a deepening of indigenous technological and innovative capabilities, shedding the former in the process, so the other economies in the region, in wave after wave (first South Korea, Taiwan, Hong Kong, Singapore; then Malaysia, Thailand, Indonesia; next China and Vietnam) would be able to replicate this process.

In order to reach – and maintain – ‘big league’ status as an economic power, a society must be able to generate industries whose leading companies can move beyond factor-led competitiveness (often, and in particular, low labour costs) to a position where they can institutionalise innovation (cf. Porter 1990). Additionally, however, the value-added associated with the innovative processes and products needs to be captured within the domestic economy if it is to have a significant effect on development and generalised prosperity. As I indicate below, from both these perspectives it is not clear that decisive progress towards the economic first rank had been made by any of the economies addressed here - with the notable exceptions of Singapore and Taiwan – in the period preceding the onset of crisis, or would have done in the foreseeable future had the crisis not occurred.

There are at least two arguments of significance here. The first, advanced most forcefully by Bernard and Ravenfield (1995), rejects the state-centric notion of development that underpins the flying geese model. They suggest that the evolution of an international division of labour in manufacturing industries in the Asia-Pacific region has effectively locked all economies, with the exception of Japan, into an intermediate role from which they show little sign of escaping. They argue that even the lead firms in economies such as Korea, Taiwan and Malaysia remain overwhelmingly dependent on technological inputs and innovation from Japanese companies (cf. Castley 1997 on Korea) on the one hand, and access to US and EU markets (the growth of Asian markets notwithstanding) on the other. In the latter cases they continue to be exposed to the protectionist impulses in those markets, that currency devaluations – and hence the cheapening of East Asian products – could only have exacerbated. If we add to the former the fact that even some of the globally prominent Korean companies such as Hyundai and LG continue to produce 50 per cent or more of their output on an OEM (‘original equipment manufacturer’)³¹ basis, then the structural limitations on their development become clear (Henderson 1994).

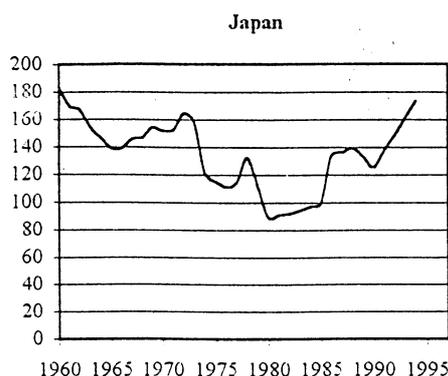
31 OEM manufacturing involves the production of commodities for another company which markets them under its own brand name. While there are advantages to this arrangement for developing economy firms, there are also distinct disadvantages. Primary amongst these are that with many standardised manufactured commodities, most of the value-added accrues in the process of ‘branding’ and marketing, rather than in the production process. A company – and by extrapolation its domestic economy – that does not ‘own’ the brand and perform

In spite of optimistic work to the contrary (particularly Hobday 1995), the second argument highlights the fact that the weight of evidence on innovation in indigenous companies in the region (as opposed to TNC subsidiaries) serves only to underline its relative absence. Krugman (1994), in characteristically provocative fashion, was among the first to point to the fact that the East Asian NICs had largely failed to spawn domestic industries that were capable of moving beyond factor-led competitiveness to a position where they could institutionalise innovation as their key competitive dynamic. As a consequence their growth remained largely dependent on inputs of capital and labour, without the benefit of ‘total factor productivity’ (TFP). For Krugman, then, there were in-built limits on the extent to which domestic industries in these economies could move into higher value-added products as a basis for sustained prosperity. Infamously, but perhaps perceptively in the light of recent events, he went further and argued that the absence of TFP would eventually throw their growth trajectories into reverse. While there are problems with Krugman’s use of TFP analysis – not least because he undervalues the extent to which state policy can help to push indigenous companies up the technological learning curve – two recent sets of data appear to support his broad conclusions.

The first is concerned with movements in terms of trade in the region and has been assembled by Raphael Kaplinsky as part of his important paper on the crisis (Kaplinsky 1998). Figure 1, drawn from Kaplinsky’s work, outlines movements in the terms of trade for all of the economies that are the focus of this paper, with the exception of Singapore and Taiwan (for which equivalent data does not exist), but with the inclusion of Japan.

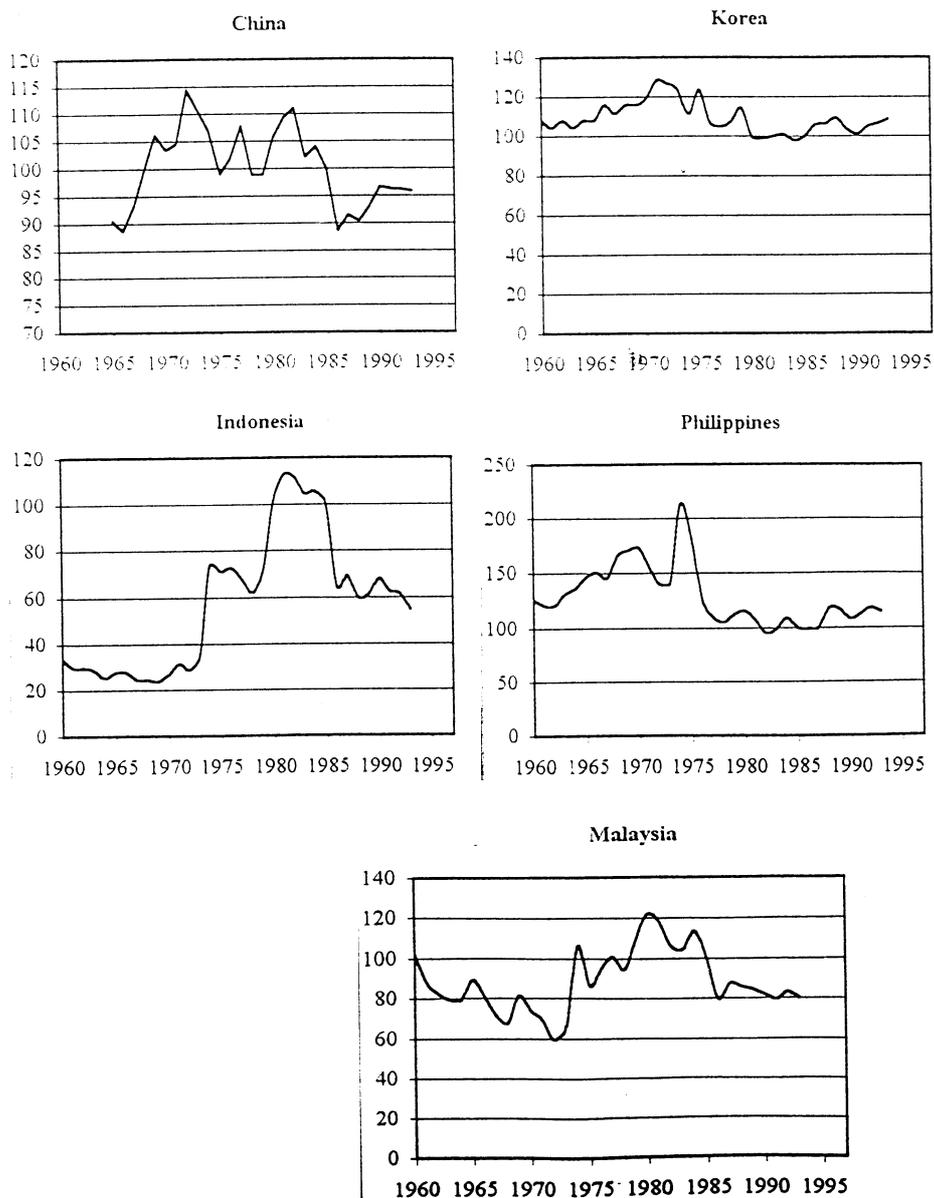
Figure 1: East Asian Terms of Trade, 1960-95 (1985 = 100)

- (a) Economies with initially depreciating and then subsequently appreciating terms of trade

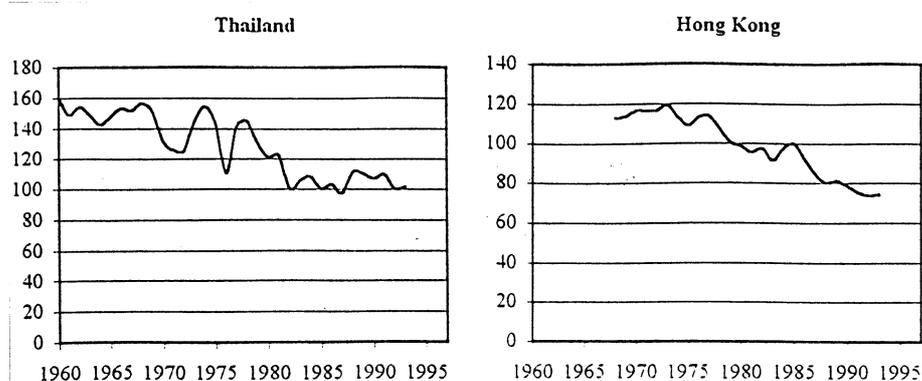


related tasks, is at a serious disadvantage when it comes to the production and capturing of value.

(b) Economies with initially rising and subsequent declining terms of trade



(c) Economies with a long-term decline in their terms of trade



Sources: Kalinsky 1998, Figure 2 from IMF, International Financial Statistics; Statistical Pocket Book of Indonesia; IMF Directory of Trade Statistics Yearbook;

World Bank; China Statistical Yearbook, Hong Kong Reports 1973, 1975; Hong Kong Review, 1972.

As is clear from Figure 1, while Hong Kong and Thailand have experienced long term declines in their terms of trade in the period since the mid 1960s, Korea, Malaysia, Indonesia and China experienced initially rising and then subsequently declining terms of trade. Among all of the economies in the region, only Japan experienced initially declining and then subsequently rising terms of trade. The additional issue that needs to be factored in here is the approximate periods during which each of the respective economies can be regarded as having manufacturing sectors as major components. In the case of Japan, the entire period covered by Figure 1 is relevant, as it is for Hong Kong. In the cases of Korea and Malaysia the period from the early 1970s is the most relevant, as is the period from the early 1980s for Indonesia and Thailand (Henderson 1989, Chapters 4, 5). As Kaplinsky argues, and interpreted in relation to the periods when the respective societies can be regarded as having significant industrial components, the graphs in Figure 1 – endorsed when exchange rate movements are taken into consideration – suggest that only in Japan has price-led (that is, low cost) competitiveness been successfully replaced by innovation-led competitiveness. In all other cases manufacturing industries in the respective economies have been unable to escape from price-led competition, suggesting that they have remained mired in low cost (read predominantly low wage), low value-added production. Since the mid 1980s, with the entrance of China into markets for low cost manufactured commodities, the Southeast Asian economies (and to a lesser extent Korea also) have become locked into a competitive downward spiral.

The second piece of information that is relevant to this issue concerns the incidence of innovation in Korea and Taiwan, the only economies in the region other than Japan where significant evidence of innovation might have been expected. Choung (1998) has analysed US and domestic data on patents secured by individuals or institutions in Korea and Taiwan. The data collected in Table 5 shows the total numbers of US patents registered by industrial classification between 1969 and 1992. It indicates not only that initiatives in Taiwan resulted in nearly three times the number of patents than in Korea – in spite of the fact that Taiwan had a much smaller economy – but that in as far as these were a measure of relative ‘technological accumulation’, then that was also more broadly based in Taiwan than in Korea. Indeed, Choung’s measures of ‘revealed technological advantage’ (Tables 6 and 7) suggest that innovation in Korea seems to have been confined to semiconductors and related technologies³². In Taiwan, however, innovation seems to have encompassed non-electrical engineering, chemicals, transport, textiles and weapons in addition to semiconductors and other electrical devices.

Additionally and significantly given the argument developed below, Choung shows that whereas the Korean Government has progressively withdrawn from driving technological learning by the *chaebol* – particularly during the last ten years - the Taiwanese Government continues to be centrally involved not only in technological acquisition (such as in recent attempts to develop a civil aircraft industry) but also in

32 Bello (1998: 10) reports that by the early 1990s IBM was investing significantly more in R&D than all Korean companies combined.

driving the medium and smaller sized companies that predominate in the Taiwan economy towards the technological upgrading of product and process.

While data relevant to assessment of innovation and technological upgrading in the region remains partial, the information and argument outlined above points again to the fact that the ‘essentials’ of the various economies – including Korea, but with important variations - were not in good shape prior to the onset of crisis. Once more, however, Taiwan and probably Singapore seem to be the interesting exceptions to the general rule.

Table 5 Technological Accumulation by Industrial Clarification: Korea and Taiwan, 1969-92

CL	Technical field	Korea		Taiwan	
		No of Patents	%	No of Patents	%
1	Inorganic Chemicals	3	0.17	8	0.1
2	Organic Chemicals	97	5.54	50	1.0
3	Agricultural Chemicals	5	0.29	1	0.0
4	Chemical Process	46	2.63	54	1.0
5	Hydrocarbons, mineral oils, fuels and igniting devices	8	0.46	6	0.1
6	Bleaching Dyeing and Disinfecting	1	0.06	1	0.0
7	Drugs and Bio-affecting agents	30	1.71	17	0.3
8	Plastic and rubber products	11	0.63	21	0.4
9	Non-metallic minerals, glass & other materials	30	1.71	50	1.0
10	Food and Tobacco (Process and Products)	17	0.97	17	0.3
11	Metallurgical and other mineral processes	12	0.69	15	0.3
12	Apparatus for chemicals, food, glass, etc.	37	2.11	183	3.6
13	General Industrial Equipment (non-electrical)	71	4.06	347	6.9
14	General Industrial Apparatus (electrical)	128	7.31	144	2.8
15	Non-electrical Specialized and misc. industrial eqpt.	44	2.51	388	7.8
16	Metallurgical and metal working equipment	22	1.26	309	6.2
17	Assembling and material handling apparatus	45	2.57	97	1.9
18	Nuclear Reactors and system	2	0.11	2	0.0
19	Power Plants	6	0.34	5	0.1
20	Road vehicles and engines	25	1.43	69	1.3
21	Other transport equipment (exc. Aircraft)	32	1.83	205	4.1
22	Aircraft	0	0.00	6	0.1
23	Mining and wells machinery and processes	1	0.06	1	0.0
24	Telecommunications	83	4.74	138	2.7
25	Semiconductors	166	9.49	61	1.2
26	Electrical devices and systems	119	6.80	413	8.3
27	Calculators, computers, other office equipment	84	4.80	53	1.0
28	Image and sound equipment	277	15.83	119	2.3
29	Photography and photocopy	18	1.03	19	0.3
30	Instruments and controls	100	5.71	386	7.7
31	Miscellaneous and metal products	101	5.77	838	16.6
32	Textile, clothing, leather, wood products	28	1.60	148	2.9
33	Dentistry and surgery	24	1.37	93	1.8
34	Other	77	4.40	711	14.0
	Total	1750	100	4975	100

Table 6 Revealed Technological Advantage: Korea

<u>Technical fields</u>	85	86	87	88	89	90	91	92	93
1 Inorganic Chemicals	0.1	3.2	0.0	0.0	1.0	0.0	0.0	0.3	0.0
2 Organic Chemicals	1.4	0.0	1.0	0.7	1.0	1.1	0.6	0.7	0.6
3 Agricultural Chemicals	4.9	0.0	0.0	0.0	0.0	0.0	1.5	0.5	0.8
4 Chemical Processes	0.9	0.4	0.4	0.0	0.7	0.5	0.6	0.4	0.7
5 Hydrocarbons, mineral oils, fuels and igniting devices	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6 Bleaching Dyeing and Disinfecting	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
7 Drugs and Bioengineering	1.3	0.6	0.0	0.2	0.3	0.5	0.2	0.3	0.4
8 Plastic and rubber products	0.0	0.0	0.0	0.0	1.9	0.9	0.5	0.5	0.4
9 Materials (inc glass and ceramics)	0.9	1.5	0.5	0.7	0.6	0.4	0.5	0.4	0.5
10 Food and Tobacco (Processes and Products)	0.0	2.6	1.6	0.0	0.6	0.0	0.6	1.3	0.9
11 Metallurgical and Metal Treatment processes	0.0	0.0	0.0	2.7	0.0	0.4	1.0	0.6	0.6
12 Apparatus for chemicals, food, glass, etc.	0.0	0.7	0.4	1.9	0.8	0.7	0.4	0.5	0.8
13 General Industrial Equipment (non-electrical)	0.8	2.2	1.5	0.2	0.6	1.1	0.3	0.9	0.6
14 General Electrical Industrial Apparatus	0.6	3.4	3.0	3.5	2.2	2.9	1.9	2.1	2.1
15 Non-electrical specialized industrial equipment	1.2	0.4	0.6	0.7	0.6	0.2	0.3	0.2	0.3
16 Metallurgical and metal working equipment	0.0	0.5	0.0	0.3	0.3	0.4	0.4	0.3	0.4
17 Assembling and material handling apparatus	1.0	0.0	1.0	2.4	1.7	1.4	1.2	1.1	1.1
18 Induced Nuclear Reactions: systems and elements	0.0	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0
19 Power Plants	0.0	0.0	6.4	1.6	0.0	0.0	1.1	0.0	0.7
20 Road vehicles and engines	1.1	0.0	1.3	1.1	1.1	1.3	0.4	0.8	0.2
21 Other transport equipment (exc. Aircraft)	5.4	1.0	1.5	1.8	0.9	0.4	1.1	0.2	0.3
22 Aircraft	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
23 Mining and wells machinery and processes	0.0	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0
24 Telecommunications	2.0	0.0	1.3	1.6	1.0	1.1	1.4	1.0	0.9
25 Semiconductors	0.0	0.0	0.8	0.0	0.9	4.1	4.2	3.5	4.3
26 Electrical devices and systems	0.0	1.4	2.0	1.7	1.4	1.8	2.7	2.2	1.1
27 Calculators, computers, other office equipment	0.0	0.0	0.0	0.4	1.0	2.2	2.2	2.0	1.4
28 Image and sound equipment	0.7	0.5	2.4	2.4	3.8	2.6	4.0	4.9	5.0
29 Photography and photocopy	0.0	0.0	0.0	0.0	0.0	0.8	0.3	0.7	0.6
30 Instruments and controls	0.6	1.1	0.4	0.7	0.6	0.8	0.8	0.6	0.8
31 Miscellaneous and metal products	3.4	3.1	1.1	0.6	1.8	1.0	0.8	0.8	0.7
32 Textile, clothing, leather, wood products	7.3	1.8	5.3	2.7	3.9	0.4	0.4	0.3	0.7
33 Dentistry and surgery	0.0	0.0	0.4	0.3	0.2	0.1	0.2	0.4	0.2
34 Other	1.0	3.1	1.5	1.7	0.9	0.3	0.4	0.4	0.4

Source: US Patent and Trademark Office, from Choung (1988, Table 3.21: 106)

Table 7 Revealed Technological Advantage: Taiwan

<u>Technical fields</u>	85	86	87	88	89	90	91	92	93
1 Inorganic Chemicals	0.6	0.0	0.0	0.0	1.0	0.2	0.6	0.0	0.0
2 Organic Chemicals	0.2	0.1	0.1	0.0	0.1	0.2	0.2	0.2	0.2
3 Agricultural Chemicals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.0
4 Chemical Processes	0.4	0.3	0.1	0.0	0.1	0.2	0.1	0.2	0.5
5 Hydrocarbons, mineral oils, fuels and igniting devices	0.0	0.0	0.0	0.3	0.0	0.2	0.1	0.2	0.5
6 Bleaching Dyeing and Disinfecting	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.3
7 Drugs and Bioengineering	0.3	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
8 Plastic and rubber products	0.6	0.0	0.4	0.5	0.7	0.3	0.3	0.4	0.6
9 Materials (inc glass and ceramics)	0.6	0.5	0.0	0.4	0.1	0.3	0.3	0.6	0.5
10 Food and Tobacco (Processes and Products)	0.6	0.0	0.8	0.5	0.2	0.7	0.4	0.3	0.3
11 Metallurgical and Metal Treatment processes	0.0	0.0	0.0	0.4	0.2	0.1	0.3	0.6	0.6
12 Apparatus for chemicals, food, glass, etc.	1.1	0.8	0.9	1.0	1.3	1.2	1.1	1.3	1.3
13 General Industrial Equipment (non-electrical)	1.3	1.1	1.7	0.8	1.4	1.4	1.3	1.4	1.3
14 General Electrical Industrial Apparatus	0.3	1.5	1.3	0.6	0.7	0.8	0.9	0.8	0.9
15 Non-electrical specialized industrial equipment	1.2	1.4	1.6	1.4	1.3	1.1	1.3	1.4	1.1
16 Metallurgical and metal working equipment	1.6	2.4	1.7	2.0	1.7	2.0	1.8	1.1	1.3
17 Assembling and material handling apparatus	0.9	0.8	0.7	1.1	1.0	0.9	0.8	0.7	0.7
18 Induced Nuclear Reactions: systems and elements	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19 Power Plants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2
20 Road vehicles and engines	0.8	0.5	1.2	0.4	1.7	0.4	0.4	0.7	0.4
21 Other transport equipment (exc. Aircraft)	1.8	2.5	2.4	1.5	2.2	1.8	2.1	1.8	2.1
22 Aircraft	0.0	0.0	0.0	1.2	0.6	0.0	0.3	0.5	0.3
23 Mining and wells machinery and processes	0.0	0.0	0.0	0.0	2.2	0.0	0.0	0.0	0.0
24 Telecommunications	0.6	0.4	0.9	0.4	0.7	0.6	0.7	0.7	0.6
25 Semiconductors	0.0	0.3	0.2	0.3	0.4	0.4	0.6	0.8	1.0
26 Electrical devices and systems	2.4	1.4	1.4	3.0	1.8	2.8	2.7	3.0	3.2
27 Calculators, computers, other office equipment	0.0	0.2	0.2	0.1	0.1	0.4	0.3	0.4	0.6
28 Image and sound equipment	0.6	0.8	0.5	0.4	0.6	0.9	0.5	0.5	0.5
29 Photography and photocopy	0.3	0.0	0.3	0.0	0.2	0.2	0.2	0.2	0.3
30 Instruments and controls	1.2	0.9	0.7	0.9	0.9	1.0	0.8	0.8	1.0
31 Miscellaneous and metal products	3.3	3.3	3.1	4.1	3.1	3.1	3.4	3.1	3.4
32 Textile, clothing, leather, wood products	3.3	3.9	2.8	2.6	2.7	2.1	2.5	1.8	2.4
33 Dentistry and surgery	0.4	0.4	0.5	0.8	0.5	0.4	0.5	0.5	0.5
34 Other	2.9	2.1	2.4	2.6	2.9	2.3	2.5	2.6	2.5

Source: US Patent and Trademark Office, from Choung (1988, Table 3.21: 107)

Sustaining Effective *Dirigisme*

With the economic demise of Korea, Thailand, Malaysia and Indonesia, and recession in Hong Kong, the question remains as to why Taiwan and Singapore have thus far escaped relatively unscathed (with the exception of limited currency devaluations – of about 20 per cent in Taiwan - and falls in stock market values). While in both cases, substantial foreign reserves (relative to GDP, probably the highest in the world) and a willingness to use them to manipulate exchange rates, have been contributing factors, it is likely that the continuing institutional capacities of the respective states to control their domestic economies and to mediate between these and the international economy, carry much of the explanatory weight. In both cases effective developmental states were constructed (in Taiwan from the early 1950s, Singapore from the mid-1960s) as central components of what Castells (1992) calls, the ‘political economy of survival’.

While their strategies of state-orchestrated economic development were inevitably different - given their different histories as colonies, as social formations, their different gearings to the world economy and geo-politics etc. - they have managed to navigate and deflect the external and internal pressures that have compromised state economic governance in Korea. While this is not the place to investigate the detail of the continuing institutional vitality of the Taiwanese and Singaporean states³³, in line with the tenor of the argument developed above, a number of significant issues can be highlighted.

In the first place, the question arises that if property market speculation has been a central component of the construction of economic turmoil in the Southeast Asian economies and Hong Kong, why has it not been such a debilitating feature of recent economic development in Taiwan and Singapore, in spite of the fact that both of them are thoroughly imbricated in Overseas Chinese business networks? For Taiwan part of the answer seems to lie in the fact that the Government was committed to channelling savings (as a proportion of GDP, an enormous 40 per cent by the late 1980s) and investment into productive activities. In order to achieve this, tight control of finance capital was essential.

After its expulsion from China in 1949, the Kuomintang (KMT) Government developed a healthy suspicion of the activities and interests of financial institutions. Rightly or wrongly, Chiang and the KMT placed part of the blame for their defeat by Mao's Communists on the corruption and speculative activities of financial institutions which had undermined the economic base of their military effort and contributed to the loss of legitimacy of the Nationalist regime (Wade 1990, Seagrave 1985). Partly as a consequence of this experience and perception (and partly because of the need to channel capital into productive activities), the dominant commercial and specialist banks (in the latter case for agriculture, industrial development etc.) remained state-owned until the early 1990s and capital movements, through to the present time, closely regulated.

As in Korea, but unlike the Southeast Asian countries, Central Bank Law in Taiwan explicitly commits the Central Bank to the promotion of economic development. As Lee (1990) argues, the Central Bank has usually interpreted this as its overriding commitment. Additionally loans through the state banks always privileged 'tradeables' (principally manufactured commodities in the Taiwan case) over non-tradeables and until recent years the Taiwan Government did not allow its citizens to hold foreign assets (Lin et al 1996). In both cases these measures had the effect of supporting productive (and indeed export-oriented) activities and discouraged - in the context of a still under-developed stock market - the siphoning away of domestic funds for speculative investments overseas. While new privately owned commercial banks were allowed to develop from the late 1980s (17 were operating by 1993), unlike their equivalents in Korea (see above), they have been tightly regulated by the Central Bank (Yang and Shea 1996). Such regulations have included reserve requirements (compulsory deposits held by the Central Bank) which by 1993 amounted to 24 per cent of deposits (Lin et al 1996, Table 7.9: 221), a figure that is very high by international standards.

33 For the classic accounts see Wade (1990) for Taiwan and Rodan (1989) and Castells et al (1990, Part III) for Singapore.

In spite of regulation such as this, significant speculation in real estate and stock markets did emerge in the 1980s. Although no data is available for real estate, the total trading value of stocks increased from NT\$195 billion in 1985 to NT\$25,408 billion in 1989. By 1993, however, it had declined to NT\$9,057 billion (Yang and Shea 1996, Table 8.2: 232). The reason for the decline was that by 1990 the Central Bank had intervened to prick the bubble to prevent it from destabilising the real economy. It did so, in part, by increasing the rediscount rate³⁴ and the reserve requirements. The effect was the dramatic contraction of the money supply and with it the dampening of speculative activity (Yang and Shea 1996: 237).

The Taiwan Government, however, has not merely been concerned with controlling the financial sector domestically. On the contrary, while economic growth has been encouraged to proceed by means of a full engagement with the world economy via trade, engagement via money-capital flows have continued to be controlled through to the present day. While the Government had begun to dismantle controls on capital markets during the 1990s – in preparation for membership of the World Trade Organisation (WTO) and partly as a consequence of US pressure – significant restrictions remain. For instance, there remains a US\$5 million ceiling on the amount of money individuals can remit in and out of the country. Importantly, and as a lesson the Government seems to have learnt from the Southeast Asian crisis on the one hand, and the relative insulation of the Chinese economy from regional turmoil on the other, plans to further liberalise capital markets have been shelved (*Financial Times*, September 23, 1998).

In terms of property and stock market speculation, Singapore has occupied an intermediary position between rampages in its Southeast Asian neighbours and Hong Kong on the one hand and the regulated markets of Korea (until the early 1990s) and Taiwan on the other. Although the country has experienced property and stock market bubbles – particularly in the early 1990s - with overexposure of domestic banks, the dangers inherent in this latest bout of speculation had been contained by 1996 as a result of tightened Government controls.³⁵ The Singapore Government, in spite of the image of the country as having an open economy, has continued to exercise a strong influence over the arbitrage activities of domestic banks³⁶ and has been willing to manipulate exchange rates (using its substantial reserves) and generally and rapidly alter the rules of the investment game whenever it has deemed it necessary to ‘cane the speculators’ lest they destabilise the real economy (Woo and Hirayama 1996: 308, 324). Other parts of the Government’s ‘caning’ project have involved some restrictions on capital flows (limits on foreign lending and borrowing by non-residents, for instance) and restrictive trading rules for the stock exchange. The latter have involved, for instance, the requirement that foreign stocks, other than Malaysian ones, be denominated in foreign currencies. As a consequence would-be local speculators have had to bear the exchange rate risk and this has depressed their activities. The implication of these regulations is that the Singapore Government has been more

34 In effect the interest rate at which the Central Bank supplies funds to the commercial banks.

35 Personal communication from Pang Eng Fong, National University of Singapore.

36 Arbitrage refers to price differences between currency or stock markets in two economies. It constitutes a form of speculation in which banks normally engage. Occasionally, like any form of gambling, arbitrage activities can generate serious problems, as it did in the case of Barings Bank in 1993.

concerned to control the potentially disruptive effects of stock market speculation than is has to encourage stock market expansion for its own sake. One of the things that this has meant is that prior to the crisis in other Southeast Asian economies, a much lower volume of trade was conducted on the Singapore than on the Kuala Lumpur stock exchange, in spite of the fact that the former is infinitely more important as an international financial centre (Jin 1996).

If stock market speculation has been moderated in the ways indicated, so too has real estate speculation. While the latter has been much more significant in Singapore than in Taiwan (as any witness to Taipei's drab urban-scape would attest), its destructive potential for the real economy and economic stability generally, has clearly been contained. While strong urban planning controls, and their active application have helped moderate speculative activity in Singapore's built environment – in the way that they have not in Thailand, Malaysia, Indonesia or Hong Kong³⁷ the state's decisive role in housing provision and finance has been a major contributing factor (Castells et al 1990, Part II). State-enforced savings through the Central Provident Fund (by means of compulsory employer and employee contributions) have not only circumscribed funds that might otherwise have been available for speculative purposes, but have helped constitute the Fund as by far the dominant and preferential source of housing finance in the country. Contributions to the Fund can be used as a source of low interest loans to buy state-provided housing. As the state anyway, through the provision of public housing and housing for sale, is the provider of housing to over 80 per cent of the population (proportionately by far the highest level of state housing provision of any capitalist society), these initiatives have had the effect of substantially removing housing as an object of speculative investment.

In addition to the varying degrees of control over property and financial markets maintained by the Taiwanese and Singaporean Governments, they have both continued - though in different ways, and unlike Korea - to pursue long term strategic economic planning. Where Thailand, Indonesia, Hong Kong and - to a lesser degree - Malaysia have in essence operated with the assumption that most, if not all, economic activities are equivalents when it comes to growth and development, Taiwan and Singapore have not. The Taiwanese Government has continued to pursue *dirigiste* industrial strategies which have privileged manufacturing and related services over other sectors, and it has attempted to move them into higher value-added, more technology intensive operations, with more success than probably anywhere else in the region with the exception of Japan (see above discussion). The Singapore Government similarly has successfully levered foreign and domestic firms alike to invest in technological upgrading and higher value-added activities. This has been done partly through forcing-up labour costs (via increased Central Provident Fund levies) and thus squeezing some of the labour intensive assembly industries out of the economy. Allied to this – indeed a precondition for its success – has been significant and increasing investments in the skill base (particularly technical skills) of the economy.

37 Lax planning regulations in Thailand, Malaysia, Indonesia and Hong Kong – or often the non-application, as a result of corruption in the former three cases, of those that exist – has boosted the accumulation potential of investments in the urban fabric. It has done so by allowing higher building densities and lower safety and environmental standards than would be tolerated by US or Western European planning authorities, or by those in Japan. I am grateful to Harry Dimitriou, Bartlett Professor of Planning Studies, University College London, for this observation.

Paradoxically the fact that the Singapore economy is largely foreign-owned (around 70 per cent overall and 84 per cent of manufacturing industry by value in the early 1990s) has probably meant that there has been no need for the extraordinary levels of short-term portfolio investment – and its destabilising potential – evident elsewhere in the region.

Whatever the ravages internationally and domestically deregulated finance capital has wrought elsewhere in the region, in Taiwan and Singapore – at least for now and the foreseeable future – it has been tamed. Amongst the instruments of its taming it is difficult to avoid the conclusion that the continuation of pro-active state policies and institutions, in both countries, has remained decisive.

Conclusion

The discourse on the East Asian economic crisis conducted in this paper is intended to supplement, not supplant, those analyses that have emphasised the role of globalisation – in the form of the deregulated activities of international finance capital – and the geo-political considerations of the US Government in its origins, progress and ‘resolutions’. In my attempts at supplementation, however, I have insisted – against the tenor of some of the contributions to which I am otherwise highly sympathetic – that there were endogenous determinants of the crisis and that as these differed from one society to the next, they are likely to ensure different economic and political resolutions. While recognising, as Cumings (1998) has argued, that all political formations in the region have been products of the historical rhythms of the world economic and geo-political system – infused as it is with US hegemony – on the one hand, and frequently-related internal social struggles on the other, the nature of state institutions, their actors and their actions, cannot simply be reduced to such world-historic processes. At any given historical moment (and the current one in East Asia continues to be a defining moment) the structures of the world system probably do set the political and economic parameters of the possible. But it is *only* the parameters that they set. Within those, states and their agencies and the political and bureaucratic actors they contain, continue to have real options. One theoretical implication of East Asian turmoil is certainly that different social formations have been bequeathed different political and economic parameters in which to operate. But one other implication is that different states have used their ranges of political ‘freedom’ in their responses to similar economic contingencies, in dramatically different ways.

At a lower level of abstraction, I have argued that in the cases of Thailand, Indonesia and Malaysia, the onset of crisis and its course have been intimately associated with the absence, or limited nature, of the state’s developmental capacities. As a consequence structurally weak economies – though with variations – have emerged in each case and these have been allowed to be distorted by speculative activities focused on stock, but particularly property markets. Amongst the principal actors in these developments large Overseas Chinese business corporations have been prominent. The course of the crises in Southeast Asia suggests that unless they – and other domestic and foreign portfolio investors – are ‘disciplined’ by means of an effective developmentalist policy regime, their activities are likely to disrupt the prospects for robust industrialisation and development. Though similar problems have arisen in Hong Kong (and for similar reasons), Hong Kong’s long-standing absorption by the Chinese economy, together with the SAR Government’s recent discovery of the benefits of pro-active intervention

(for instance in the stock market) may yet mean that there, recession, rather than full-blown crisis will be the order of the day. In the former economies the corruption of political elites (not relevant to Hong Kong) has taken an 'acquisitive' form and consequently has had negative consequences for development. Even if the current crises had not occurred, however, it is not at all clear that they – or indeed Korea – would have gone on to build robust, 'deep' industrial economies. Evidence on innovation and technological upgrading in the region, though patchy, points to the opposite conclusion. With the obvious exception of Japan, only Taiwan (and possibly Singapore) seems to have made significant headway in this direction.

In the case of Korea, there emerged between 1961 and the early 1990s a classic developmental state. While corruption of political elites was evident there, it was not oriented towards rent seeking, but indeed towards the enhancement of productive investment. It was one of the best examples of 'developmental corruption'. Subsequent to 1992, however, the state's developmental capacities began to be dissipated. It abandoned long term strategic planning and became increasingly unable to mediate the relation (particularly the financial relation) between the domestic and international economies. The Wall Street-IMF-US Treasury view notwithstanding, the internal origins of the Korean crisis lay not in too much regulation, but ultimately, when confronted with deregulationist pressures and ideologies, in too little.

Taiwan and Singapore have so far remained largely outside the web of crisis because they continue to have effective (though very different) developmental states. As a consequence they have been able to construct more robust economies than the others, partly by withdrawing property and stock markets as foci for speculative investment, partly – in the Singaporean phrase – maintaining the institutional capacity and bureaucratic skill to 'cane the speculators', and partly by continuing to practice strategic economic planning. In the case of Taiwan, the retention of some controls over capital movements (and the likelihood that they will not now be abandoned in the foreseeable future) has clearly helped to protect the economy from the worst effects of rampaging international finance capital. As such this lends support to recent attempts to control capital flows by the Malaysian Government, to restrict the ease of exit of portfolio investment by the Chilean Government, and to the calls for a radical re-think of the governance of the international financial system (Singh and Weisse 1998, Wade and Veneroso 1998b).

In the debates over the consequences of globalisation for national economic governance, the analysis developed here points to conclusions similar to those drawn by Linda Weiss (1997, 1998). Different states, for a variety of historical and social reasons, have developed different capacities to mediate between the national and the global and to lever both in terms of economic and social development. While these capacities change over time, and in general have probably diminished as a result of globalisation, states who are determined to pursue *dirigiste* policies, and have the bureaucratic skill to do so, provide themselves with the economic and political space to make choices: to decide on the balance of economic activities within their borders, to decide to privilege some sectors as against others, to decide to transform corporate governance, to decide to redistribute, and so on. In addition to the human suffering that the East Asian crisis has engendered, one of its tragedies is that non-Anglo-American routes to prosperous economies have been delegitimated. One of the depressing aspects of the episode is that countries elsewhere in Asia, in Africa and in

Eastern Europe, now have fewer viable role models to counterpose to the social and psychological destructiveness of the Anglo-American version of capitalism.

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