THE POLITICAL ECONOMY OF GROWTH IN DEVELOPING EAST ASIA: A THEMATIC PAPER *

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1. Introduction

Different governments in different countries have different reasons to decide on different public policies. This much is obvious. What is not obvious, however, is the fact that these reasons can be conditioned or influenced by a complex set of criteria that reflects power relationships among various persons and/or institutions in those countries. Many of us are often puzzled by a certain government decision that is clearly inefficient or distortionary but pleases a certain group of people, or surprised by a certain decision that is really forward-looking although the immediate benefits of such a decision is not clear to see. Take, for example, a decision to prohibit a certain import or to impose high tariff to protect a local manufacturer, or a decision to unilaterally reduce tariff in a regional grouping like ASEAN or APEC. As growth of the economy is something most governments in most developing countries would like to have, the interplay between the politics and economics of such growth-oriented policies becomes all important. The political economy of growth in these countries has become an important issue of concern.

Although there are different ways in which the political economy of growth could be approached in various countries and regions, it is necessary that some semblance of a uniform approach is adopted if comparison across countries and regions is to be made. In this respect, the organiser of the Global Development Network at the World Bank has suggested that three key common characters be included in the theme of study to be undertaken in each country. These three common characters are the historical evolution of decision-making, the determinants of some important policy actions, and the determinants of investments in these developing countries. In preparing this thematic paper on political economy of developing East Asia, the above three unique steps will be adopted.

East Asia is often regarded as one of the most diversified regions in the world. Many countries in this region have had long history that dated back several centuries, and many have developed independently of one another. These diversities are at once interesting and difficult to study. Interesting because each country would have different historical evolution of its own decision-making, and difficult because the patterns of these decisions are not the same. Yet the East Asian region may still exhibit common growth characteristics that define or explain the rapid economic expansion during the last several decades that has become the hallmark of East Asian economic miracle. Many have often referred to East Asian growth as a 'Flying Geese' phenomenon, or a 'Catching Up' process, or growth that depends on outward-looking, export-promoting strategies. In order to have a satisfactory coverage of developing East Asia, 8 countries or economies will be selected to represent developing East

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Asia. These 8 countries are: China, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand. [1]

On historical evolution of decision-making, one has to take into account the importance of colonial legacy on political structures and systems that exert their influence upon the process of decision-making. This ranges from a strong democratic tradition in the Philippines, a strong bureaucratic tradition in Malaysia and Singapore, a strong feudalistic tradition in China, Thailand and Indonesia, and the Japanese influence in Korea and Taiwan. However, the periods that are relevant to this study would be after the Second World War when the above countries started to develop in their own ways.

On determinants of key policy actions, the following policy variables may be included in the study: trade policy, exchange rate policy, budgetary policy, tax policy, and monetary policy. In discussing the above policy variables, the following 'policy actors' may be included: the politicians or power elite, the political parties, the parliament, the interest or pressure groups, the bureaucracy, and the media. The discussion on this topic can be made on at least two levels: one is ‘on-the-surface’ analysis of the current economic situations, and the other is ‘in-depth’ analysis of certain economic decisions that have great impact on the existing economic makeup of the country.

On the factors that influence investors' confidence, this part of the study will look at the records of foreign direct investment (FDI) in each country and discuss the reasons for such FDI. It is inevitable that we have to discuss the macroeconomic performance or management of each country as well, as this is a good reason why foreign investors have confidence or trust in any particular country.

In what follows, therefore, the paper will discuss, in Section 2, the historical development of selected East Asian economies. The emphasis on this section is not a history of economic development of these countries in general, but the highlighting of important economic events in the past that have crucial or important bearing upon the situations or events at present. The selected East Asian economies included in this section will be divided into 3 groups. China will be the only country in Group A, representing a unique economy which is very large and largely underdeveloped but with a potential to become a major world economic power in the future. Group B consists of the so-called Newly Industrialised Economies (NIEs) of which Korea, Singapore, and Taiwan are selected as representatives. Group C includes those countries in Southeast Asia that share common economic features and are more or less in the same level of economic development. Four of these countries selected are Indonesia, Malaysia, Philippines and Thailand.

Section 3 looks at the courses of growth and development of these developing or newly industrialised countries in East Asia. It begins with further discussion on the explanation of rapid economic growth that took place in all of these countries in the

[1] These historical development and evolution are referred to, not so much to tell the full story of what had happened as to highlight common features or characteristics that stand out from the past. The main purpose of this study is to try to explain these growths and changes by referring to individuals or groups of individuals or institutions and their interactions therein that brought about such growths and changes.

1980s and 1990s before embarking upon the highlighting of the main features of growth and development in each economy. Section 4 concentrates on political economic aspects of current development policies in each economy. The section starts with some discussions on the so-called political economy of policy-making where the concept of who makes policy and how are being addressed. Eight policy areas will form the basis on which discussion on each economy will proceed.. These 8 areas are: overall growth policy, trade policy, exchange rate policy, expenditure policy, tax policy, monetary policy, price policy, and investment policy. Section 5 discusses specific economic events or changes that have contributed to the present situations in each of the 8 economies. We can call these events ‘turning points’ in the evolution of economic policies, and this is where the true political economy of decision-making is being investigated. At least one ‘turning point’ in each economy will selected and briefly analysed in the context of the interplay between political power, bureaucrats, the private sector, and other societal forces deemed relevant. As this is a thematic paper, it is neither the intention of the author nor is it possible, to discuss at length the political economy of this turning point. This is the foreseen duties of the country authors. It is possible of course to have more than one turning points in the historical evolution of important decisions in each economy. Finally, Section 6 concludes and assesses future prospects of political economy of growth in the East Asian region.

2. Historical Evolution of Economic Policies in East Asia

As mentioned earlier, the East Asian region is one of the most diversified regions in the world where neighbouring countries can be so different economically, politically, and culturally that it is impossible to draw any common factors that can be used to explain the patterns of their lives or livelihood. One thing is quite common, however, most of the countries in East Asia gained their independence after the Second World War, and started to develop their countries in their own separate ways. The events after the War are, therefore, very important because they often set the direction of the countries in the postwar periods.

Let us take China as our first case. Before the War, the Chinese government under the Nationalist Party or Kuomintang (KMT) was already engaged in internal conflicts with the communist group led by Mao Zedong on the one hand, and external conflicts with the Japanese on the other. Although the Pacific War had brought the Communists and the Nationalists together in their fight against the Japanese, the end of the War saw the two groups breaking apart again. This time the Communists got the upper hand and eventually defeated the KMT who fled to Taiwan. China as we know it today was then established in 1949 as a communist state. The economic and social changes in China in the following 3 decades would be changes under the rules of communism, or the rules set out by Mao Zedong to be exact. The growth of China during its first 30 years cannot be understood without reference to the philosophy of Mao.

Mao, of course, would like China to be like the then former Soviet Union. Emphasis was placed on rapid industrial development a la Soviet type (heavy industries) at the expense of traditional agriculture. The first 5-year plan (1953-1957)was actually built on that concept. After breaking up with the Soviet Union toward the end of 1950s, China under Mao saw even greater need to industrialise quickly. The second 5-year plan (1958-62) was the period of the Great Leap Forward where village-level heavy industrialisation was carried out with disastrous results. At the same time, the formation of communes was complete where private plots were abolished and land redistributed. However, the lack of incentives in the communistic production system caused farm production to contract sharply. Coupled with bad weather, famine set in, killing millions of the Chinese people. The government was forced to relax on communistic production system and channeled more resources into the farm sector. Just as the economy started to recover, the whole of China was again embroiled in another political upheaval engineered by Mao and his followers. The period between 1966 to early 1970s was widely known as the period of the Great Proletariat Cultural Revolution when Mao used Chinese youth (the Red Guards) to purge his opponents and maintain his grips on power. Only when Mao died in 1976 and the reemergence of Deng Xiao-Ping as the new China leader in 1978 did the growth of the Chinese economy begin to change again, this time almost completely.

The case of Korea was different. Korea was under the Japanese occupation until the war was over. Internal conflicts between two leaders one supporting capitalism and the other communism had escalated into another war (the Korean War) in 1950 involving China and North Korea on one side and the American, South Korea and other UN-sponsored groups on the other. The end of the Korean War in 1954 saw the two countries sunk more deeply into poverty. Once the two countries started to develop, however, the above similarity ended. South Korea, adopting capitalistic, market-approach to development, with heavy support from the US in the form of aid and markets began to grow quickly. Political turmoil in South Korea in the early 1960s prompted a general to stage a coup and put himself in power. From 1962 until his death in 1979, General Pak Jung-Hee set the direction, the tone, and the tempo of South Korean development with his unique blend of state-directed development strategy and market-oriented economic policies. A few large companies or conglomerates (the Chaebols) were selected to develop certain industries producing certain goods and services under the rules of the market but with government subsidies and support. The results were rapid expansion in industrial output. The assistance by the US in the formative years of South Korea played a very crucial part in helping South Korea to grow quickly. When South Korea started its economic development push in 1962, its per capital income was less than that of the Philippines, but today, the per capita income of South Korea is about 8 times larger than that of the Philippines. (see Table 1).

The role of the US in helping Taiwan in the postwar period was equally beneficial. General Chiang Kai Chek, the leader of the KMT, was already supporting capitalistic system, so the support from the American was natural. Like the case of Korea, American aid and markets provided initial help for both economies to start to grow. Also like South Korea, Taiwanese government was able to launch very effective land reform program where excess ownership of land was curtailed, and poor farmers were given land to work on. Later on it could be shown that the success in this land reform was a major factor explaining the more equitable distribution of income of both Korean and Taiwanese as the two economies developed. A major difference between the case of Korea and the case of Taiwan in their economic strategies was that, whereas General Park of Korea emphasised state-supported heavy industrialisation, General Chiang went for labour-intensive light industries where small and medium-scale entrepreneurs or enterprises were given liberal market access and infrastructure support by the government. Where the end results were the same, that is, both Korean and Taiwanese economies are export-oriented, the means to that ends in the two economies were different.

The situations in the postwar Southeast Asia were much more difficult because the Americans were not involved. The end of the war brought back former colonial powers to claim back their colonies. Most countries in Southeast Asia emerged from the Second World War with varying degrees of damages. Philippines suffered a great deal, and so did the Chinese in Malaya and Singapore. For Thailand, however, because it sided with the Japanese, it had escaped from much physical and institutional damages during the war but had to face moderate war reparations later on. But the economic effects of the war in the form of inflation and shortages were everywhere felt in Southeast Asia.

Despite all these adverse effects and undesirable consequences, the Second World War combined with the intrusion of Japanese military power into Southeast Asia had helped shatter both the mystique and the institutions of Western colonialism(Steinberg et al., 1971). Not only that, the occupation policies of the Japanese in a number of Southeast Asian countries also provided nursing grounds for the expansion of popular participation in politics. Thus the Japanese, whether intentionally or not, helped rekindle the nationalistic and anti-colonial movements that lay below the surface in Indonesia, Malaya, Philippines and Burma. It is these nationalistic movements that shaped what to become of many Southeast Asian economies later.

Take the first example of Indonesia. Under the Dutch colonial rule, the economy was neatly divided into the primary product export sector and the traditional agrarian sector (Paauw, 1981). This dualistic pattern of the economy where the modern , enclave-styled, export sector coexisted with the traditional, backward agricultural sector indeed typified the 'colonial pattern' of many Southeast Asian economies at the end of the war. It was discovered that dualism in Indonesia was in the form of ethnic Indonesians engaging in traditional agricultural sector and being labourers in the export sector, whereas higher income employment in central government and colonial export trade activities were reserved for European and Asian (mainly Chinese) minorities. Thus the twin inequities in production and employment were all very apparent as a legacy of the colonial rule, something which many nationalistic leaders attempted to redress during the postwar periods.

But the change would not come easily. When the Japanese were gone, back came the former colonial rulers to frustrate emerging nationalistic movements. Nowhere in Southeast Asia the postwar fight for independence was more traumatic than in Indonesia. The bitter colonial experience led the postwar Indonesian leader (Sukarno) to spend a lot of time and resources uprooting the Dutch colonial heritage, and perhaps emphasising too much on economic nationalism. As a result precious time and opportunities were squandered away. The economy was helped briefly by the Korean War commodity price boom, but fell back to the postwar stagnation again. Falling export revenues, rapid inflation and costly military expenditures following its 'confrontation' policies against the newly-created Malaysia saw Indonesia entering the 1960s in a rather shaky state. The discovery of oil and gas in the early 1960s eventually provided some help, but it was the political and economic instability within

Indonesia in the middle of 1960s that led to the change of government from the 'Old Order' of Sukarno to the 'New Order' of Suharto, when an essentially inward-looking, nationalistic economic policies gave way to an outward-looking, more pragmatic economic policies.

In other Southeast Asian countries, the transition from colonial past was less disruptive. Malaysia and Singapore took a long time to attain independence from the British, but then the changeover left a smooth and well-disciplined bureaucracy and political systems that were a great help to economic development later on. Malaya and Singapore were already doing well in the rubber and tin exports, and in entrepot trade when the British left them in 1957. But the racial conflict between the indigenous Malays and the Chinese which was somehow suppressed during the British rule began to surface which eventually would have a log-term impact on the courses of development of Malaysia and Singapore later.

In the Philippines, the postwar periods saw the return of the Americans and American-style democracy. Many elites who worked with the Japanese during the War were also allowed to return. So, in terms of political continuity, there was no major problem. But strangely enough the economic continuity in the postwar Philippines did cause some long-term problems. For example, sugar which was a major export item of the Philippines received preferential treatments from the US, thus it did not provide incentives for the country to diversify into other crops like Thailand had done. The industrialisation process which started in the early 1950s, well before any country in Southeast Asia, also caused some difficulties many years later.

Elsewhere in Southeast Asia, the postwar economies and societies were all changed to some degrees. Even Thailand which was never colonised was imbued with some nationalistic fervour by its leaders. Therefore, one could see widespread establishment of state enterprises in the postwar periods as an attempt by the government to counter the economic influence of the Western companies and the Chinese minorities. In Burma which was an even larger rice exporter than Thailand during its colonial time, political instability after the war gave rise to an epoch-making coup d'etat in 1962 making Burma turning inward and more or less ceased to develop. In Vietnam, the postwar settlement saw the independence of not one, but two countries, North Vietnam and South Vietnam. Although the Second World War was over, there were still other wars for North Vietnam: with the French, the Americans and its Southern brothers, and the Cambodians.

Therefore, as Professor H. Myint (1971:27) put it, it is broadly true to say that, allowing for varying degrees of political instability, the speed of economic recovery and economic development tends to vary inversely with the violence of reaction against the postwar pattern of economic development based on export expansion. Thus, in Indonesia and Burma where the reaction against the 'colonial economic pattern' was most violent, exports had been stagnant and economic recovery slow. Of course these were the countries which pursued economic nationalism policies. But those countries which pursued 'prewar economic patterns' or neo-colonialism policies such as Malaysia and Thailand, the recovery was quick and economic progress satisfactory.[2]

At this stage, it is appropriate to say now that all countries in Southeast Asia, using different policy instruments, started the postwar period with two commonly shared national goals: to promote industrialisation both as a symbol of modernisation and as a means of reducing their dependence on the export of a few primary products, and to transfer a growing share of their national incomes and economic activities to the indigenous section of their population (Myint, 1971: 29). Since all these countries were primarily agricultural countries, to industrialise would mean to cause structural transformation of a major kind. And this called for some economic development theories that could help the countries concerned develop and transform their economies.

In the late 1950s and early 1960s, there were several development theories that were being propounded and followed. Most developing countries in Southeast Asia, then would realise the significance of primary exports as the 'vent for surplus' which eventually led to industrial transformation. They would also realise and accept, the significance of savings to led to investment and to increased national output. Then there was now classic theory of development with unlimited supply of labour of W. Arthur Lewis where a thesis was advanced that excess labour could be released from the traditional sector without affecting the output in that sector. This basic theoretical construct was expanded in a dualistic development framework by Fei and Ranis (1964) and later by Paauw and Fei (1973), which became an influential theory used to explain the pattern of Asian economic growth. According to this dualistic growth model where the economy is consisting of a small but progressive and modern industrial or manufacturing sector and a large but traditional and backward agricultural sector, the larger agricultural sector is providing not only cheap food supply to the industrial workers, it also provides cheap labour and foreign exchange earnings through exports of agricultural products. In other words industrialisation in this setting needs initial supports from the agricultural sector in more ways than one.

In the dualistic industrialisation process itself there are unique phases that a developing economy should move along an appropriate growth path to becoming an industrialised country. At least three phases or steps are involved and these are import substitution, export promotion, and export substitution. In the import substitution step, the industrial sector is oriented toward the domestic market to replace the traditionally imported consumer goods and will attempt to keep such domestic market exclusively for local products. What normally happens is import substitution industries are set up to produce simple, low-priced consumer goods, using imported machinery and cheap and readily available local labour. To encourage domestic manufacturing, the government often sets up protective tariffs and other protective trade and non-tariff policies for these import-substituting firms.

[2] According to Professor Myint, the prewar pattern may be characterised by four main elements of economic policy: free international trade with low tariffs imposed for revenue purposes; free entry of private foreign investment into the primary export sector; a free market system inside the country relying on economic incentives to expand export production both from the peasant sector and from the mining and plantation sector; and financial and monetary stability based on balanced budgets and an automatic currency exchange system which maintains free convertibility with fixed exchange rates.

The next phase or step is the export promotion step. Here the industrial sector is having some experience producing various manufactured goods. It had become more efficient because the industrial production is based on the country's abundant and cheap labour resources which give it necessary comparative advantage while the production of the agricultural sector and to a smaller extent, the manufacturing exports will receive extensive promotion. Eventually the resource-based, primary exports will have their share of total exports reduced at the expense of increased manufacturing exports leading to the third phase or step of industrialisation which is export substitution. This is the step where the industrial sector is fully developed towards foreign markets with its outputs consisting of either labour-intensive or skill-intensive manufactures which the country enjoys comparative advantage.

There are sufficient reasons to believe that the development of most Southeast Asian economies are more or less of this type. However while the development approach is more or less the same, the final outcomes or development results among countries could be different due to different ways in which each country carves out its domestic economic policies. Ariff and Hill (1985), for example, concluded their study on ASEAN export-oriented industrialisation by saying that international economy will have an important bearing on future growth rates (of ASEAN economies), but the critical determining factors (for the success of most ASEAN countries) will continue to be domestic economic policies. In another context, Myint (1972: 36) also suggested that a proper way to development was for the underdeveloped countries to pursue their own domestic economic policies to improve their capacity to 'absorb' the available aid and trade opportunities. In short, those who can get their domestic policies right have a better chance to succeed in their quest for industrialisation and development.

It should be noted that while the economies of Northeast Asia, namely Korea and Taiwan, also follows the patterns of development found in Southeast Asia (import substitution followed by export promotion), the close contact between these economies and Japan was established much earlier on. Both of course were former colonies of Japan, so special relationship had developed. In fact many scholars in Japan started to analyse the development of these NIEs along the same ways they analyse the Japanese economy earlier on (the ‘flying geese’ development pattern).

In the meantime, another explanation to the growth and development of economies in East and Southeast Asia was developed. This time by Harry T. Oshima. According to Professor Oshima, the monsoon economy is a rice growing economy that depends on highly-seasonal and concentrated rainfalls, the type that characterises most of Southeast Asian agriculture. Because of this pronounced seasonality and concentration, a large seasonal agricultural labour is demanded and their occupation movements are restricted by both the seasonality of the rain and the highly labour-intensive nature of paddy farming. To become industrialised, a monsoon economy needs to go through a different period of adjusting to this seasonality, the great labour demand during the peak months, and the rapid schedules of monsoon paddy agriculture. If this is successfully carried out, through construction of roads, transport, irrigation/drainage, and rural electrification, and improvements in rural institutions pertaining to agrarian relations, associations, extension services, credit distribution, research and rural industry, farm family income begin to accelerate and soon exceed the growth of the labour supply. When the excess is sustained, Professor

Oshima argues, full employment is eventually approached and wage begins to rise. With rising farm income, domestic demand for industrial and service output in the urban areas increases, leading to the increased demand for labour in the cities. Peasants find it necessary to mechanise farm operation in the peak season, and rising wages also induce industries to mechanise. Total factor productivity begins to accelerate and growing industrial efficiencies enable entrepreneurs to expands exports. The shift of workers from agriculture to industry increases even more. Finally, an equilibrium is reached where employment migration takes care of the welfare of the poorest peasants and mechanisation is complete both in the farms and in the cities to the extent that full employment is obtained. By now a monsoon economy is on its way to become an industrialised economy.

3. The Courses of Growth and Development

Despite diverse historical origins and different environments surrounding the ways in which each economy began its development process, one fact remains clear: almost all of these economies experienced a very rapid economic growth in the 1980s and the first half of the 1990s. Indeed the growth of East Asian economies represented by the majority of our economies above, was so impressive and outstanding that numerous studies were undertaken to explain or analyse the apparent success of these East Asian economies. The most well-known of these studies is, perhaps, ***The East Asian Miracle** (EAM)* published by the World Bank in 1993. But before that, several influential studies already existed, and many more were conducted after the success of the *EAM* to give it additional interpretations and analyses. What are some of these explanations of the rapid East Asian economic growth that can help us understand the political economy of growth better later?

According to the EAM, there were at least 3 main explanations to the economic success of East Asia. The first explanation referred to the non-interference of the state and the force of the free market in the neoclassical fashion. Wolf (1988), for instance, found that many of these successful East Asian economies benefited from decisions and policies that limited government's role in economic decision making and allowed markets, despite their imperfections and shortcomings, to exercise a decisive role in determining resource allocation. Even earlier on, Chen (1979) already saw the merits of this non-interference of the state, saying that what the state had provided was a suitable environment for the entrepreneurs to perform their functions. The second explanation, often called revisionist explanation, challenged the neoclassical view by arguing that the governments in many of these economies extensively and selectively promoted individual sectors (sometimes even by deliberately distorting prices). The third explanation, which was made by the World Bank in its 1991WDR, lies between the first two explanations. In this so-called 'Market-Friendly View', rapid growth in East Asia was associated with effective but carefully delimited government roles. The governments need to do less in the areas where the markets work, and to do more in the areas where the markets could not be relied upon. In the World Bank's view, the appropriate role of governments in a market-friendly strategy was to ensure adequate investments in people, provision of a competitive climate for enterprise, openness to international trade, and stable macroeconomic management. The EAM itself expands on this third interpretation and suggests a Functional Growth Framework whereby the three policy choices, namely the attainment of good basic economic fundamentals, the selective intervention, and the existence of good institutions, are used to explain the East Asian economic miracle. (World Bank, 1993, p. 88). [3]

Like many path-breaking studies that try to make bold statements or conclusions, the EAM had attracted numerous critical comments. [4] Interestingly enough, many of these critical comments came from several Japanese scholars. Indeed there are so many Japanese extensions of the explanations of East Asian growth that they represent a unique 'Japanese' school of thought. Chief among these modern Japanese viewpoints regarding East Asian growth are the Hosono Akio (1998) and Yanagihara Toru (1997). While agreeing with the World Bank in macroeconomic stability as an economic prerequisite for growth, Hosono, for example, tried to further explain East Asian growth by emphasising the role of the state in its dealing with the development of an economy. The state looks at the economy as the framework and the people as the actors who participate therein. The state has three roles in this 'framework cum actors' approach, namely in establishing and maintaining markets, in enhancing the capabilities of economic agents, and in attaining development goals. In a somewhat similar fashion, Yanagihara proposed to use 'economic system approach' based on the experience of Japanese economic development to explain other East Asian economic development (especially Korean and Taiwanese). To him, growth is perceived in the confine of an 'economic system' whereby certain institutional rules of the game exist, and economic agents within it are influenced or conditioned by them in their economic decisions and actions. In other words, an economy is conceived in terms of functions of institutions; it contains individual agents who make decisions and take actions in the markets that are defined as the coagulation of networks and the outcome of capacity building.

The importance of institutional factors in determining the path of growth is further expounded by yet another two Japanese scholars. Okuno-Fujiwara Masahiro (1997), for example, suggests the 'comparative institutional analysis' approach to explaining East Asian economic growth. According to him, this approach, unlike the conventional neoclassical economic tradition, "…recognises that there are divergent economic systems operating in the real world and focuses its analysis on why such different economic systems exist, why these systems function stably, how these economic systems change overtime and, further, compares actual economic systems to analyse the reasons for the emergence of such different systems" (Okuno-Fujiwara, 1997, p. 454). Hayami (1998), tried to reconcile the same 'catching up' growth of several East Asian countries within disparate social and cultural systems. These different social and cultural systems are of course institutions that affect the growth pattern of these countries although similar goals may be perceived, that is the technology borrowing phase is replaced by the technology innovation phase. In comparison with the so-called Western approach, the Japanese approach as a representative of the Eastern approach can be equally effective in determining the growth of other East Asian economies. As Hayami has put it, what is more important

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[3] Good basic fundamentals include stable macroeconomy, high human capital, effective and secure financial systems, limiting price distortions, openness to foreign technology, and good agricultural development policies. Selective interventions include export push, financial repression, directed credit, and selective promotion. And good institutions include technocratic insulation, high-quality civil service, and existence of monitoring facilities.

[4] See, for example, special issue of ***World Development***, vol. 22, no. 4, April 1994.

is to recognise that both systems, created under different cultural traditions, were successful in getting modern industrial technology to result in high productivity and affluent living. (Hayami, 1998, p. 24).

What the above accounts have told us is probably that the institutional knowledge of each economy involved will be important in understanding the true nature of economic growth of many countries in East Asia. In what follows, therefore, we will try to show how the difference in the institutional setup of each country, its historical perspectives, its social and cultural foundations could lead to different sequencing of growth. Nevertheless, in the final analysis, it will be pointed out that in the today's globalised world, the open market system will lead these different countries to the same economic goals of industrialisation and modernisation.

China

As mentioned earlier, the agricultural development in China suffered from neglect from the government when the country changed to communism in 1949. Forced communes in the late 1950s had shocked many established farmers, resulting in the erosion of incentives and reduction in farm production. The famine in the early 1960s might have rechanneled some of the government expenditure from industries to agriculture, but these measures were only short-lived. Statistics had shown that in agriculture, per capita output in 1977 was no higher than that in 1957. Post-Mao rural economic reform took place with major price increases for agricultural products in 1979, and by 1981 the collective farms were broken up into land that was contracted out to private families to work. At this time, the size of private plots had increased, and most agricultural products could be sold freely in the markets. Peasants also had a greater freedom of choice to work on the farm or off it. Those who had left farm jobs could get work in factories in the cities and towns.

During the Mao period, the industrialisation process in China concentrated on heavy industries such as metallurgical and machine-building industries, which were often inefficient and producing low-quality products. The post Mao period, however, saw a switch from these heavy industries to light industries producing household goods for domestic consumption as well as for export. The low wages and other production costs made Chinese goods very cheap, which had become popular in overseas markets. The success on light manufacturing products such as textiles and garments had helped the Chinese external trade performance greatly, so much that within the period of two decades, China was able to increase its exports by leaps and bounds. Its accumulated international reserves were among the highest in the world. The so-called 'Special Economic Zone' along the coast which were set up in late 1970s attracted large foreign capital and joint ventures, adding the growth of Chinese economy.

Korea

South Korea was always a poor agricultural country until it had succeeded in transforming it economy from agriculture-oriented to industry-based in the 1960s and 1970s. A Japanese colony since 1910, Korea existed as a base for the Japanese military venture into China. When the war ended in 1945, Korea was liberated and was split into two, North Korea and South Korea. Soon South Korea found itself engaged in another war in 1950 with its northern brother, North Korea, which was being supported by Communist China and Soviet Russia. South Korea quickly received help from the UN systems under the leadership of the US. The end of the Korean War brought on further devastation to the country and economy. [5] Korea had to start from scratch, with the post-Korean War government attempting to improve the agricultural production through land reform increased agricultural productivity. Throughout the 1950s and 1960s, the military and other economic and trade assistance from the US helped sustain the Korean economy so that the Korean government could start its industrialisation process without having to worry too much about needed sources of funds and market outlets. [6]

A major drive toward industrialisation in Korea was said to have started with the seizure of power by General Park Jung-Hee in 1961. Firmly in control in the new Korean government, General Park began his unique brand of state-business coalition to develop the Korean economy. He had struck a deal with several leading businessmen who controlled large business groups (so-called chaebols) to agree to develop specific industries in exchange for government support in terms of credits and other business and economic incentives. This apparent 'picking the winner' strategy appeared to work well for Korea in the beginning as the economy started to grow rapidly. The initial phase of Korean industrialisation was of course import substitution (textile, fertilisers, food processing, steel products, and so on) but which had given way to export-oriented development strategy quickly. The normalisation of relations with Japan in 1965 brought in large amounts of Japanese direct investment, most of which were export-oriented. [7]

Widespread labour disputes and rigged election in 1972 brought about political and economic to Korea. General Park again seized this opportunity to stage a palace coup and proclaim a new constitution which enabled him to continue to be president for unlimited terms. Shortly after the proclamation of the new constitution, he also announced the 'Heavy and Chemical Industrialisation (HCI) Declaration' of 1973 hoping that the new export-oriented heavy and chemical industrialisation would bring about greater national security and economic development. Under the HCI Promotion Plan, the government would focus on developing or promoting 'strategic

[5] From now on the use of word Korea is meant South Korea unless otherwise specified.

[6] Mason and Kim (1980) claimed that South Korea was one of the largest recipients of foreign aid in the world. They pointed out that the US alone supplied US$12.6 billion in economic and military assistance between 1946 and 1976, the international financial institution an additional US$1.9 billion, and Japan approximately US$1 billion. For the country with a population of 25 million, the aid per capita amounted to about US600 at the midpoint of the 1960 which was one among the highest in the world at that time.

[7] Both Rhee (1994) and Lim (1998) have argued that the state, no matter how strong it is, needs to work with the private sector or big business in order to achieve liberal market reforms. To Rhee, the authoritarian state became fragile without a supporting coalition with big business. To Lim, every regime needed a set of alliances or coalitions to maintain political survival. State incumbents include, co-opt and reward business only if the private sector was perceived as assisting regime survival. Industrial policy was thus a mechanism employed to maintain political survival by rewarding and punishing the private sector through various measures. The state intervened in the market by means of industrial policy. But the state is not a unitary actor. As Lim (1998, p. 18) had pointed out, within the national government, the interests and preferences of legislators, the presidents, party leaders and bureaucrats are different. In general, politicians are interested in being re-elected. Bureaucrats prefer security in office, career advancement and material advantages. Therefore, the behaviour of the state could be regarded as the outcome of rational choices by self-interested officials acting within particular institutional and circumstantial contexts. In the case of Korea, it was shown that these behaviours converge on a common theme, that is the government had focused its attention on efficiency-oriented private economic management.

industries' such as iron and steel, machinery, non-ferrous metals, electronics, shipbuilding, and petrochemicals. During this authoritarian period from the end of 1972 until the death of General Park in 1979, the relationship between the state and big business became even more intertwined. Political chaos which followed the assassination of General Park brought in another coup, and the government continued its economic controls and financial repression, but this had clearly helped the government to get what it wanted. Indeed, Chris Edwards (1993) had alluded to a frank observation that "no state outside the socialist bloc ever came anywhere near this measure of control over the country's investable resources'.

So, the alliance between the state and big business in Korea explained the success of heavy industrialisation in the 1980s and 1990s. The success was made possible by the determination of the Korean government and the Korean people to catch up the developed countries, especially Japan. As of early 1990s, Korean economy had attained the status of a newly industrialised country and had been accepted as a new member of OECD.

Taiwan

As soon as the KMT had established a new government in Taiwan, it began to develop the Taiwanese agriculture which was the major economic sector in the island. Agricultural land reform was carried out successfully during 1949-1953. [8] Concurrently with the raising of agricultural output in the 1950s, the government began to build a highly labour-intensive industrial base with emphasis on import substitution. By the end of the first decade of the new development, Taiwan had several industries such as canning, food processing, textile, cement, plywood, and glass. The 1960s saw the Taiwanese government adopting export expansion strategy. A major export-promoting law was enacted in 1960 where the government would give preferential interest rates for time deposits and lend this money at subsidised rates to establish labour-intensive exporting industries. Export processing zones started to flourish in the latter half of the 1960s, together with various export incentives such as tariff reduction and tax rebate. By the end of the 1960s Taiwan was exporting cheap consumer products such as radios, television sets, refrigerators, sewing machines, synthetic fibres, fertilisers and clothing.

The second stage of import substitution arrived in the 1970s when Taiwan began to establish its heavy industries such as steel and basic petrochemicals to serve machinery and consumer industries. As a result of the two oil shocks in the early 1970s and 1980s, the government was compelled to review its options and decided to promote capital-intensive industries in order to counter the energy dependence of some sectors of heavy industries. The export performance continued to improve throughout these periods, so that by the first half of the 1980s, Taiwan began to enjoy huge trade surplus. By the end of the 1980s, foreign exchange reserves of Taiwan amounted to almost US$80 billion, one of the highest in the world. To adjust to this new chapter in economic development, the government also began to restructure its

[8] This included the reduction of land rent, the sale of public land to tenant cultivators and farm labourers, and the limitation of land ownership per family (no larger than 2.9 hectares), the excess of which was sold to the state.

financial system in the late 1980s, to deregulate it and make it more transparent and less distorted. [9]

The decade of 1990s saw Taiwan entering an advanced industrialised stage of development . The government continued to provide help to the private sector. In 1992, for example, the Taiwanese government announced its 6-year National Economic Development Plan aiming at upgrading technology the development of 10 ‘newly emerging industries’ (namely telecommunications, information, consumer electronics, semiconductors, precision machinery and automation, aerospace, advanced materials specialty chemicals and pharmaceuticals, medical and health care, and pollution control), and 8 ‘key technologies (namely, opto-electronics, software, industrial automation, applied materials, sensors, biotechnology, resource development and energy conservation). At the end of the 1990s, Taiwan is also ready to be a member of the OECD countries.

At this juncture it is interesting to discuss some similarities and differences in the ways Korea and Taiwan have developed their economies. It can be argued that both have adopted the same basic tenets of product-cycle and export-oriented industrialisation. Product Cycle Theory as espoused by Vernon (1966) argues that during the introductory phase, a new product was manufactured by a developed country with high technical know-how and skill labour. In the second growth phase the said product became mass-produced and mass-distributed, reaching market saturation point in the mature third phase when the mature product became more capital-intensive and standardised. As the standardised production process permits the utilisation of less skilled labour, the location of production moves to less developed countries. Eventually the process reverses, that is there will be exports of the products from foreign countries into the original home market. The similar ‘Flying Geese’ model which emphasises the diffusion of technology as the main reason for less developed countries to catch up and close the technology gap with the developed countries.

According to Wade (1990, p. 322), “...Korea’s technocrats were not steeped in an anti-big-capitalist philosophy, as were Taiwan’s for much of the postwar period. And they faced no ethnic tensions between themselves as outsiders and native business people...The fact the conglomerates acquire enormous economic power is not seen as a threat to the regime as it would be in Taiwan.” Both Rhee (1994) and Lim (1998) have argued that the state, no matter how strong it is, needs to work with the private sector or big business in order to achieve liberal market reforms. To Rhee, the authoritarian state became fragile without a supporting coalition with big business. To Lim, every regime needed a set of alliances or coalitions to maintain political survival. State incumbents include, co-opt and reward business only if the private sector was perceived as assisting regime survival. Industrial policy was thus a mechanism employed to maintain political survival by rewarding and punishing the private sector through various measures. The state intervened in the market by means of industrial policy. But the state is not a unitary actor. As Lim (1998, p. 18) had pointed out, within the national government, the interests and preferences of legislators, the presidents, party leaders and bureaucrats are different. In general,

[9] This restructuring of the financial sector was one of the reasons Taiwan had escaped the contagion of the Asian crisis in the late 1990s.

politicians are interested in being re-elected. Bureaucrats prefer security in office, career advancement and material advantages. Therefore, the behaviour of the state could be regarded as the outcome of rational choices by self-interested officials acting within particular institutional and circumstantial contexts. In the case of Korea, it was shown that these behaviours converge on a common theme, that is the government had focused its attention on efficiency-oriented private economic management. In sum, Lim argued that variations in export patterns between Korea and Taiwan can be explained by the interaction of different industrial structures and industrial policies, which result from different political coalitions. This suggests that different political coalitions have been a major factor leading to different patterns of industrial transformation between Korea and Taiwan.

As for South-East Asian countries with the exception of Singapore and Brunei they depended on their agriculture as the initial engines of growth. Apart from rice which is grown everywhere in monsoon Southeast Asia, some countries may develop specialisation in growing certain crops and in a special type of farm management. For instance, until World War II, plantation-type farming in such crop as rubber, sugar-cane, coconuts, palm oil, sisal, tea and coffee played a very important role in the agricultural development of Malaysia, Indonesia and the Philippines. After the war, the role of colonial-run plantations declined, of course, but some countries still depended on the exports of these products but with varying degrees of success. Malaysia continues to do well with rubber (and tin) exports. Philippines always received preferential treatments from the US regarding its major exports thus its market was fully protected. Indonesia however, did not do too well with most of its exports and the economy remained stagnant until late 1960s.

The Philippines

The case of the Philippines offers an interesting example of how agricultural exports provided an early opportunity for industrialisation. With the protected agricultural exports market in the US assured, the country could consider getting industrialisation earlier. This was done at the end of 1949 with the import and exchange controls actually instituted in response to a balance of payments crisis. The protective effect of import restrictions gave rise to new consumption goods industries. Therefore, as Power and Sicat (1971) explained, an industrialisation process of the 1950s favoured the finishing and assembling of imported semi-manufacturers for sale in the home market, in contrast to the earlier period which was dominated by the processing of domestic raw materials for exports. Now two lines of protection were at work: in the American market, it was protection against rival tropical agricultural products; and at home, it was the protection for the manufacture of consumption goods against all foreign supplies.

Perhaps we should go back a little and mention that the balance of payments crisis referred to above was partly brought about by much over valuation of the currency and the resulting enormous consumption goods imports. The import and exchange controls that followed provided more or less inadvertent protection for the manufacture of consumption goods. Although import decontrol was effected in the early 1960s, a highly protective tariff was still permitted. By then the Philippines had gone into more than a decade of inward-looking import-substituting industrialisation. The 'easy' or what Hirschman called the 'exuberant' stage of import substitution had already been passed as the taking over of an existing market for consumption goods from the restricted foreign suppliers was more or less completed.

The second stage of import substitution was more difficult because the limited domestic market was already covered. There were at least two alternative options: to move back to the earlier stages of the production process, ie. backward-linkage import-substitution or to break into the export market. The government decided to do both but it needed assistance in capital investment both from inside and outside. Therefore in 1967, the Investment Incentive Act came into being. It was one of the most comprehensive laws that aimed to attract domestic and foreign capital. Investment could be registered as preferred or pioneer with differing degrees of incentives, and the responses from such countries as Japan and Taiwan were quite impressive. However, the overall economic conditions were still not so good. Primary export was still quite limited. No doubt, at the end of 1960s, the industrialisation policies of the Philippines were still being criticised as unsatisfactory for the following reasons: (1) they supported inward-looking manufacturing; (2) they depended excessively on imported inputs; (3) they caused excessive reliance of the economy on a few primary exports, owing to the failure of the industrial sector to develop as a source of foreign exchange; (4) they created an over-concentrated regional development; (5) they caused greater inequality of income distribution; (6) they neglected wage-good industries; (7) they slowed the growth of industrial employment; and finally (8) they were simply technically and economically inefficient (see Power and Sicat, 1972: Chapter 5).

So much for the formative years of the Philippines import-substituting industrialisation. In the early 1970s however, the economic conditions improved a little due to a boom in commodity prices and a rise in foreign trade. But import liberalisation was still not drastic enough to erase the inefficiency of protection. Nevertheless, the government paid more attention to small and medium scale industries to help develop local entrepreneurs and generate more employment, and to an export processing zone policy in the hope to promote more exports. [10] Still, overall, the industrial performance of the Philippines was still considered poor. And Professor Oshima (1983: 53) had attributed this poor industrial performance to the failure to improve the efficiency in its up-stream capital-intensive industries (such as steel products, chemicals, paper and pulp, and so on), and thereby obstructing the growth of labour-intensive industries through 'cost and quality cascading' making export expansion difficult.

This is just one among many problems faced by Philippines in the decade of 1970s. The country was under Emergency Rule then and was governed by Presidential decrees. The abuse of power and many inappropriate overseas borrowings and spendings had plunged the economy into debt crisis several years later. The well-known political event had brought about the change in the government in 1986, and the new government is trying its best to cope with the problems. So far its market-oriented approach to problem-solving has shown some signs of success. Evidence during the first half of the 1990s had shown that the government under democratic regime adopted market approach to solving the existing economic problems. Price subsidies and controls were reduced or dropped,

[10] However, Peter Warr (1989) had pointed out that the net benefit form such export processing zone might not be very high at all

privatisation of state-owned enterprises increased, government spending streamlined to reduce fiscal deficits, balance of payments improved through increased remittances of Filipino workers abroad, and so on. Although the growth in the Philippines economy was slowest in East Asia in the early 1990s, this slow growth had somehow cushioned the Philippines from severe economic downturn that had affected its faster growth neighbours in East Asia during the latter half of 1990s.

Malaysia and Thailand

While the case of the Philippines which used to be the front-runner in terms of development in Southeast Asia could hardly be called a success story until very recently, the cases of Malaysia and Thailand certainly can. These two neighbouring countries are well-endowed with land resources where Malaysia had made the best use of them by growing rubber and oil palm, and Thailand by growing rice and other upland crops. Both started their modern development efforts more or less at the same time at the end of 1950s, and the development strategies of both countries were influenced greatly in the beginning by the thinking and recommendations of the World Bank. The 1955 World Bank Mission to Malaysia and the 1957 Mission to Thailand produced similar kinds of recommendations, that the private sector be given a major role in development efforts with the government providing infrastructure and institutions for further growth, and creating fiscal and monetary conditions conducive to investment (see World Bank 1955 and 1959). Both countries were recommended to increase the productivity of their agriculture and diversify it further while concurrently pursuing their industrialisation processes.

These recommendation were followed quite closely. [11] In 1958 the Pioneer Industries Ordinance was introduced in Malaysia, providing tax relief on the profits for 'pioneer firms', the length of relief depending on the company's size of capital investments. One year later the Industrial Investment Promotion Act was passed in Thailand with more or less similar provisions for investment incentives. Also in Thailand a great deal of administrative and organisational changes took place in preparation for launching of its first National Economic Development Plan in 1961. In Malaysia, the First Malayan Plan was already in existence since 1956. When Malaya was unified with Sabah and Sarawak The Plan was changed to the First Malaysian Plan in 1968. Perhaps one statement made in this First Malaysian Plan captured the spirit of economic development policies of not only Malaysia but of Thailand as well. It said: The government will continue to leave the operational role in the industrial sector largely in the hands of the private enterprises, the government will offer coordinated and purposeful assistance to private industrialists but the attainment of the objectives for industrial development will depend substantially upon the response of local and foreign entrepreneurs to the incentives and assistance offered (quoted in Teh, 1977: 29).

Since then Thailand had been quite successful with its agricultural diversification. Rice was no longer the only major crop for export; it was supplemented by maize, kenaf, sugar cane, cassava and mung bean. Malaysia was also successful in its drive to expand oil palm cultivation. While these traditional and new agricultural products continued to earn foreign exchanges for the countries, industrialisation developed. It should not be surprising to learn that the type of

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[11] In Malaya, the Working Party set up after the World Bank Report did not agree with the incentive program of the Bank, and proposed a new program of their own.

industries being developed at first was import-substituting, light manufacturing industries because of the limitations in technology, skill and capital. But the protection in Malaysia was quite moderate and tended toward specific, 'made to measure' type; it was much higher and less systematic in Thailand. At the end, however, both had realized that they had to move on. Malaysia took an earlier initiative with regards to export-oriented industries in the early 1970s, providing export incentives and other facilities such as export processing or free-trade zones. Thailand stayed a little longer in its import-substitution phase, and did not switch to export promotion until the middle of 1970s. But once this was done, the outcome has been quite dramatic. The exports of manufactured goods such as textiles, garments, footwear, electronic circuits, and processed foods rose on the average of 8 to 9 percent per year toward the end of 1970s, and even higher in the 1980s. In 1988 which was the best year for Thailand in recent history, its total exports increased almost 35 percent over the level of 1987. The manufactured exports had already surpassed the traditional agricultural exports since 1984, moving Thailand one step closer to becoming a NIC. Apart from export growth, Thailand because of its relatively free and open economy with a relatively stable political and social system, also attracted a large and continuing inflow of foreign direct investment, and increasing number of tourists.

For Malaysia, it seems that with good performance both in its agricultural and industrial sectors, Malaysia would have become a NIC some time ago. But a racial problem between the native Malays and the Chinese which erupted in the riot in 1969 convinced the Malaysian leaders that economic development must sufficiently improve the status and welfare of the majority of poorer Malays as well. So the so-called New Economic Policy (NEP) was instituted in the Second Malaysian Plan in 1970 which seemed to detract a little from the normal course of development emphasising growth and expansion alone. The Plan with NEP would do at least two things: One was to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysians irrespective of race; and the other was to accelerate the process of restructuring Malaysian society to correct economic imbalance. In short, the economically-disadvantaged Malays (the bumiputras) would be given favoured treatments whenever and wherever possible. In a more specific term, the government would like to see Malay participation in the ownership and control of the corporate wealth in the country. It was planned that by 1990, Malays would own and control 30 percent of the nation's share of the capital instead of a mere 2 percent in 1970. Over the same period, non-Malay shares would increase from 23 to 40 percent and foreign share ownership would be reduced from 62 to 30 percent.

The merit and demerit of NEP will be a subject of debate for sometime to come, but the apparent economic success of Malaysia in the 1980s and 1990s where the indigenous Malay population were shown to be doing very well already attested to the merit of this policy, which seems to enhance the image of its champion, the current Prime Minister, Dr. Mahathir Mohammad. For Thailand, this kind of racial trade-off between the Thais and Sino-Thais did not happen but inequity from development still exists, between farmers and non-farmers, rural people and urban people, which needs to be corrected in the future. [12] In the mid-1980s in the face of

[12] Although it may seem that the development of the Thai economy did not follow the lead of a charismatic leader, like Dr. Mahathir in the case of Malaysia, but the Thais seemed to accept the

deep recession, the NEP was down-played as it became clear that this policy could be implemented under expansionary economic conditions. In 1991, the NEP was replaced by the NDP, the National Development Plan, which refrained from setting quantitative equity targets (Ariff and Zainal, 1998, p. 161). The most important part of this policy is ‘Vision 2020’, a brainchild of Dr. Mahathir’s plan to make Malaysia an industrialised country by the year 2020.

It should be pointed out that the rapid growth of Thai and Malaysian economies in latter half of the 1980s and the first half of the 1990s came mainly as a result of similar strategic policies which included liberalised trade and investment regimes which had led to substantial increase in the manufacturing production and exports, reduced role of the state through increased privatisation of state-owned enterprises, deregulation and decontrol in the financial and capital markets, and freer and less restrictive labour markets. Both could claim to the ‘Fifth Tiger’ of East Asia in the 1990s (after Korea, Taiwan, Hong Kong and Singapore), although with higher income per capita and greater exposure to high-tech industries Malaysia appeared to have a slight edge.

Indonesia

A racial problem was experienced in Indonesia too. As mentioned earlier, in the prewar periods the Europeans and Asian minorities mostly owned and controlled the primary export trade of Indonesia. After the independence, the economic nationalism predominated. Most Dutch enterprises were disbanded or nationalised and the business activities of the ethnic Chinese was subsequently suppressed (Wong, 1979: 58). The burden of the Indonesian government to manage the economy was simply too much. Yet they went ahead with a special plan (the Economic Urgency Plan) to sponsor large-scale industrial plans. But the plan failed due to administrative inefficiency among other things and was later replaced by the First 5-year Plan in 1956 with a different strategy with respect to industrialisation. This time it called for a curtailment of the scheduled industrialisation programs, and an end to private enterprise financial assistance, and a concentration on the development of state enterprise.

This substantial state interference with economic activity was in part a reflection of ideological convictions, but in part a necessity to secure large amounts of resources to carry out its political and economic programs. A series of mismanagements such as government controls and highly over-valued exchange rate brought about galloping inflation and the further erosion of the export sector, and eventually led to the downfall of the government. The new government led by General Suharto quickly dismantled the basic idea of government interference, maintained price stability, and reduced direct control, freed up foreign exchange system, gave high priority on export trade, encouraged private investment, and quickly rehabilitated the economy's infrastructure, particularly transport, communications, power and irrigation. These improvements led to a substantial rise in foreign capital inflow, and private foreign investment contributed to the rehabilitation of the export sector as well, particularly in extractive industries.

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collective leadership of the executive branch of government through the cabinet or council of ministers. The government may lack effective prime minister, but once he is in power, he can command respect through his office and the prestige of the cabinet.

By 1969, the export sector had embarked upon a course of genuine expansion. The first oil price increase in 1973 helped Indonesia even more. Between 1970 and 1977, the export earnings of Indonesia rose more than 9 times. Out of this monumental change, one began to see also a change in industrial development policy. Now the maximum growth of extractive exports and capital-intensive import substitution were encouraged. Investment strategies called for accelerating inflow of foreign capital for petroleum, minerals and lumber, and for capital-intensive manufacturing. As Paauw (1980) had observed, with such fast growth and the need to maintain it, the government's resistance to control wavered and an over-protected import-substitution regime was gradually recreated. The main trade policy was to maintain an over-valued exchange rate and a reimposition of controls over imports.

Meanwhile large export earnings and government revenues enabled the increased subsidisation of the rice production, and self-sufficiency was attained in the early 1980s. But that was also the time Indonesia faced the adverse conditions of an oil-price slump. It had then realized that to become too dependent on oil exports alone could get the economy into trouble too in a situation like this. So, another structure adjustments were in order. The trade and exchange rate policies were liberalised; the currency was devalued several times; various controls were lifted; and many administrative procedures were streamlined to make them more efficient. Moreover, the non-oil exports received greater government promotion. As pointed out Nasution (1997), these heavy doses economic liberalisation and reforms throughout the latter half of the 1980s and the first half of 1990s in all major policy areas (exchange rate policy, fiscal policy, financial and monetary policy, trade policy and other regulatory framework policy) had helped Indonesian economy grow very fast. If there were any weaknesses in the Indonesian development during these periods, they included the lack of adjustment in the highly protected ‘strategic industries’ such as automotive industries, petrochemicals and infrastructure projects, forest-based industries, and state-vended products (Nasution, 1997, p. 548). This had given rise to transfers of monopoly rights from the state to a number of politically well-connected private companies, which later had become the seeds of severe economic crisis in the late 1990s.

Singapore

Somehow the case of Singapore needs very little explanation as to how it could develop so fast and so well. It has been very well-known that Singapore's economy operates on free-market competition principle with disciplined and highly skilled population and very able, resolute and far-sighted government leadership. But in the beginning, Singapore started just like most other developing countries in Southeast Asia, that is import-substituting manufacturing industries with all the usual 'infant industry' protective measures. This was during the first half of 1960s, but soon after Singapore was dropped from joining with Malaysia, the industrialisation policy changed. Now Singapore must earn foreign exchange quickly and increase competitiveness of domestic manufacturers through exposure to international competition. It enacted the Economic Expansion Incentives Act which granted tax concession on profits from exports of domestic manufacturers, and privileges to direct foreign investments geared to export markets. Since Singapore had a very strong government, unencumbered by political opposition, it could provide leadership and confidence (from the foreign investor's point of view) unmatched in other countries in the region.

Therefore, in a space of a few years, Singapore's manufacturing sector could become export-oriented. It kept the momentum of a good system by massive investment in public housing and city planning. As an efficient, and shrewd, free trader, Singapore benefited a great deal from favourable international economy during the 1970s. It had become not only a manufacturing and trade Centre, but also a financial and banking centre of Southeast Asia as well. While the international economy slowed down abruptly in the early 1980s coupled with a period of overexpansion in Singapore threw Singapore into a recession for the first time in 1985, it managed to get out of it within one year by concentrated efforts from the government and the private sector. Today, Singapore is the strongest economy in the Southeast Asian region. It has enjoyed good export performance and a high and stable rate of growth rate despite its currency becoming much stronger than before, and despite the economic crisis that encircled this small city-state. And although its case may not be emulated elsewhere, at least it has shown that to rely on efficiency concept in production and trade can be rewarding indeed.

What can we learn from the diversified pictures of development in the 8 developing East Asian countries above? I have presented the above account in order to be able to make the following conjectures that may be useful for further investigation.

(a). The growth and development of the majority of these developing East Asian countries depended very much on the directives, guidance, plans, intention, techniques, preferences, wishes, or similar behavioural patterns of political leaders in each country or economy. In China, it was the wishes and techniques of Mao Zedong and Deng Xiao-Ping that defined the growth and development of the Chinese economy. In Singapore, it was the strategy of Lee Kuan Yew which transformed Singapore from a small port city to a thriving industrial and business centre for East and South-East Asia. In Indonesia, the decision and guidance of Suharto to modernise and liberalise the Indonesian economy cannot be disputed. In Malaysia, the forceful policy directives that aim to lift the economic role of the Malays by Dr. Mahathir must be regarded as one of the most successful socio-economic policies in modern history. And so on. To explain the growth of East Asia effectively it is probably not possible to avoid references to the experiences of these political leaders.

(b). To understand the mentality and techniques of these leaders, and the circumstances under which these leaders were able to operate one may have to resort to analysing some vague concepts that are often associated with Asian culture such as ‘Asian values’, Confucianism, innate respect of authority, loyalty to protectors, closeness to families, belief in patron-client relationship, and so on. There are certain aspects of these socio-cultural characteristics that are unique to East Asia the full knowledge and understanding of which could enhance the explanation of policies in East Asia.

(c). Most of these East and South-East Asian leaders may assumed their roles differently, but at the end they seemed to follow the same principle of market mechanism. Most would go along with economic efficiency considerations in most policies, and would opt for free and open trade rather than distorted and restricted trade and investment. This is one of the reasons why the Asia Pacific Economic Cooperation or APEC is doing well in this region: because economic and political leaders in this region believe in voluntary, free and non-discriminatory trade and investment. The free market orientation can also be used to explain the overall rapid economic growth in the region.

4. Political Economy of Current Economic Policies

How to explain a policy change in the context of the interplay of roles of different people or group of people? As the interplay of these roles requires decision-making or conflict-solution which entail the use or reference of power, which is in the realm or politics or political science, whereby the decision made or solution reached represents a certain choice with its full implications of the benefits and costs of resource allocation, which is in the realm of economics, the whole episode is often referred to as the political economy of policy or decision making. It is the marriage between these two powerful disciplines that makes the study on the political economy of growth very relevant and very useful in the economics of development.

As suggested by Bates and Devarajan (1999), and Lyn Squire (1999) there are 4 stages in the explanation of policy changes. The first stage is the identification of the preferences of key individuals or groups of individuals. But this will lead to action unless these individuals or groups can organise themselves for effective action, and unless they can promote their case through the existing political structures whatever that may be. This is Stage 2. Stage 3 occurs when there are deliberations within structures and arenas of government whereby other additional players or actors from outside (international actors) can come to play a part. Finally, Stage 4 is reached when there are policy choices by the government. Four groups of peoples (or institutions containing groups of people) are identified as important for most studies of the political economy of growth. They are (a) interest groups; (b) political party; (c) bureaucracy and institutions; and (d) international actors.

There are of course more than one ways one can describe the stages of policy making or policy change. Ichimura Shinichi (1998), Director of the International Center for the Studies of East Asian Development, for example, divides the process of policy-making into 3 stages namely the analysis of economic situations and prescription of policies, the process of decision-making involving various groups of people in society, and the implementation of policies. Based on the case of Japan, the process of decision-making will involve five groups of participants as follows:

1. Government bureaucrats
2. The Liberal Democratic Party (LDP)
3. Special interest groups
4. Government ministers
5. The Prime Minister

These five participants or actors will possess different sets of preferences which they will, at appropriate time and opportunity, make known to others (as in Stage 1 of Bates and Devarajan, and Squire), and will launch into action also at appropriate time and opportunity (Stage 2 of BDS). The most important part of the process of decision-making in Japan lies in the discussion and coordination in political parties and pressure groups, ending up with the parliamentary deliberation and cabinet decision. In Ichimura's framework, the process of policy implementation is still considered part of decision-making, as other factors will still have to be decided, such as the amount of resources allotted, that is, budget; the personnel for carrying out policies; the responsible government organisations; and the private sector's response to the policies.

In yet another way of looking at the political economy of decision making, I want to suggest that growth policy can be looked upon as a product or a good, either private or public (or both), and there are supply and demand of this good in the market. This good has a price associated with it, which determines the level of utility from the supplier or demander point of view. The government is often looked upon as the major supplier of growth policies, and it can draw its utility from the provision or supply of such policies. This utility can be in the forms of the successful performance of the government recognised by the people via its popularity in the ballot box, or the economic rents extracted from the demanders of such policies, or even corruption or corrupted practices of some government officials or bureaucrats. The structure of the parties involved in the demand and supply of growth policies is, therefore, very important in the study of the political economy of growth in each country. On the demand side, the people or parties involved may include (1) the general public, (2) economic pressure groups or interest groups, (3) mass media, and (4) academicians. On the supply side, the people or entities involve may include (1) power elites (mainly politicians), (2) bureaucrats or technocrats, (3) political parties, and (4) the parliament. Each party or entity on both sides will interact to influence the adoption and implementation of a growth policy (or any policy for that matter), What are these roles?

This point needs further elaboration. I am going to refer to the case of Thailand as an example of the political economy of policy-making. Following the pioneering work by Rangsun (1989), economic policy could be regarded as a commodity like any other goods and services, with its own supply, demand, and market. The formulation of these economic policies could be looked upon as an outcome of the interactions between the above supply and demand in the economic policy market. Economic policy also has the characteristic of a public good as its availability provides joint consumption for all and, as a rule, no one could be excluded from enjoying it. In addition to a partial analysis of supply and demand of a commodity which normally assumes constant income and taste, a proper analysis of the determination of economic policy must take into account such institutional factors as the influence of world economic system and the "super-structure" of the domestic economic system which includes political system and culture, customs, traditions, and other institutional relationships in the society.

Take the supply side of economic policy first. According to Rangsun, there are four groups of players or actors on the supply of (public) economic policies in Thailand. They are (1) power elites, (2) technocrats, (3) political parties, and (4) the parliament. The system under which the first two groups would operate would constitute what we have referred to in this paper as a bureaucratic polity, although the composition of the first group, the power elites, might not be bureaucrats in the commonly understood sense. The power elites in Rangsun's view consist of members of the cabinet who posses political power, and the high-ranking officials at the ranks of director-general in the armed forces and the civilian bureaucracy.

Within this group, the mechanisms for policy making and implementation are already in place. We have the prime minister and his ministers as the top political officers who decide on policies, and the permanent secretaries and directors-general who would be responsible for the implementation of such policies at the macro levels. The process is completed with the inclusion of the second group of middle-level executive officers (MLEO) in the bureaucracy who would be generally known as the technocrats or bureaucratic technocrats [13]. These are the groups of people who actually have the duties to oversee the execution of economic policies, monitor important changes in the economy, analyse the current economic problems, project likely future economic events, and suggest or recommend courses of action or new economic policies. Normally the MLEOs in the following government agencies are included in this group: the Bank of Thailand, the Ministry of Finance, especially the Fiscal Policy Office, the Budget Bureau, the National Economic and Social Development Board (NESDB), the Ministry of Agriculture, especially the Office of Agricultural Economics, the Ministry of Commerce, especially Departments of Foreign Trade and Internal Trade, the Ministry of Industry and the Ministry of Communications.

In a slight difference from Rangsun's approach described above, I would like to propose the rearrangement of the composition of the two bureaucratic groups above that will reflect a better analysis of the situation. It would classify the power elites to include only members of the council of ministers or the cabinet who are political office holders at the highest level while relegating civilian officials of the ranks of permanent secretaries and directors-general and military officers of equivalent ranks to the second group and simply recall them Executive-Level Officials (ELOs). This slight modification should give a better picture of the system of policy determination with the political "bureaucracy" [14] at the top and the executive permanent bureaucracy just below it. The power elites may come and go through the change of government by various means, democratic or otherwise, but the permanent bureaucracy has a life of its own which is in a certain way quite independent from the political organisation at the top. To be included also in this group of bureaucrats/technocrats are publicly-appointed policy advisers to the power elites, notably the economic advisers to the prime minister, ministers, or the economic cabinet.

The other two groups on the supply side of economic policies are the political parties and the parliament. As will be shown later, despite the importance of these institutions in a democracy, their roles in the determination of economic or other public policies in Thailand are neither effective nor impressive. The political parties are involved in the making of public policy through the initiation or introduction of a

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[13] As the bureaucrats are here defined to include only the middle-level executive officials and up, many of these bureaucrats are those who are in positions to apply technical knowledge acquired through studies, training, or experience to the problems at hand. These bureaucrats will be referred to as technocrats. Unless important distinction between the two needs to be emphasised, the terms bureaucrats and technocrats may be used interchangeably.

[14] If bureaucracy refers to rules governing the activities of personnel in the public sector, then ministers or political officer holders must fall under a category of bureaucracy where the exercise of their political power is subject to established, publicly-recognised rules such as the scope and limitations o their power, the obligation to follow certain legal procedures, the accountability of their duties, and so on.

bill to the parliament, and such a bill will be deliberated and voted by members of parliament before becoming law.

On the demand side, Rangsun identified four groups of people or organisations who were likely to be involved in the demand for any economic policy. They were (1) the general public, (2) economic pressure groups or interest groups, (3) mass media, and (4) academicians. The position of the general public as the target group upon which an economic policy would be applied is obvious and need no further elaboration. It is within this large group of people or population that the demand for economic policy or service would not be revealed [15], therefore such economic policy must be provided by the state as a public good. An economic pressure group or interest group would be a smaller group than the general public and has clearly identifiable area of interest or concern. The mass media, especially daily newspapers and other magazines, would function in the capacity of the sounding board of the demand for public policy from their readers and the demander of certain public policies themselves. Finally, the academicians in Thailand are, at times, quite effective in suggesting or pressuring for the establishment or change of certain policies. However, the records of success of this last group are uneven and unpredictable.

With the main actors identified both on the demand and supply sides, the determination of an economic policy would come as a result of interactions among these groups. Take a simple case of a rice price support policy. The demand for such a policy could originate from the rice farmers or the rice farmers' group who express their concern or demand through their parliamentary representatives or through the news media or the academicians. The executive officials who are monitoring the existing economic situations may be aware of the need to do so already and would either inform the minister involved about the plausible course of action or receive the policy directive from such minister to carry out policy implementation. If a law is already available which gives power to the appropriate agency to act, such as the disbursement of public funds, then such action will be taken. If a new law is required, then the department involved in cooperation with the government party or parties will draft a bill to be submitted to the parliament for consideration and final enactment. As the political system of Thailand follows that of Britain where members of the executive branch of the government (the cabinet) are drawn from the legislative members of parliament, the executive branch has a traditional superiority over the legislative branch. In other words, what has been determined or approved by the cabinet or by government party will also pass the vote in the House of Representatives. Occasionally the appointive Senate or Upper House may disagree with the decision of the Lower House but the constitution will always provide necessary rule for members of the lower house to override such disagreement by members of the upper house. A law is then passed and enforced by the department concerned. [16]

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[15] This is a classic case of non-revealed preference of public good demand by the people who are more inclined to be free riders to avoid paying for its supply either through taxes or user-charges.

[16] But of course the demand for policy is not always satisfied if the supplier could not or would not to supply it within the circumstances. This is where the interactions (and struggles) will continue between the two sides of policy markets until some kinds of solutions come out.

Under this straightforward and mechanistic procedures of policy making, it seems that the major players of this economic policy making, especially on the supply side, have more or less equal role in formulation, announcement, and final execution of economic policies. But in reality, the bureaucratic sector has played a much greater role in the determination of economic policies in Thailand. [17]

It may be seen that there is not much difference among the above views regarding the core involvement of various individuals, or groups of individuals or institutions in the process of policy-making. Each country with different development backgrounds, political, economic and social systems, may have its own unique institutional setup, but the analytical process should be the same or similar. On this note, let us look at few of the selected policies to see how we can address the issue of the political economy of such policies in the context of developing East Asia.

(a). Overall Growth Policy

The emphasis on where the country or economy is heading can be the outcome of intricate and complex interplays of power and interests from various groups of people and institutions. To give just one example: the economic crisis in Thailand was thought of by some as the result of the Thai economy opening up too fast, and the Thai people exposing too much to the globalised world economy. A new development policy calls for greater self-sufficiency in the ways the country responds to economic and social changes in the world. Many people will be involved in the deliberation of this prospective growth policy. Other questions regarding overall growth policies in other countries may also be relevant. Why China decided to abandon the Socialistic ways of developing its economy? Why Korea decided to go all out for heavy industrialisation in the early 1970s? Why Singapore abandoned the high-wage policies in the late 1980s? And so on.

(b). Trade Policy

Most countries in East Asia depend on their external sectors as the blood line for their economic well-being. Most have adopted export orientation and gradual tariff reduction and other trade liberalisation as their major trade policies. The issues that may be discussed include how each country adjusts to the impact of expected greater trade liberalisation in the future, who are affected by this liberalisation, what alternatives these countries have in coping with the impending freer trade policies, and so on.

(c). Exchange Rate Policy

With Malaysia the only exception, all other 7 economies have now adopted flexible exchange rate policy. The history behind each economy coming to this policy position can be very varied indeed. Many had adopted fixed exchange rate or multiple exchange rates in the past but today used one flexible exchange rate policy (China, Thailand, and Korea are some example). There are reasons for doing so such as the desire to protect domestic industries, to reduce uncertainty in trade, to reduce the cost of domestic production, but the end they had all abandoned the above because the economic costs involved in the fixed and multiple exchange rates exceed the perceived benefits.

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[17] For further detail on the interplay of power between politicians, bureaucrats, and business people in various policies in Thailand, see Medhi (1998).

(d). Expenditure Policy

Government budgeting is one of the most important domestic policies in any country. Each country would have different systems regarding budget preparation, approval, execution and evaluation, and each of these steps of the budget cycle can involve a very large number of policy players. Growth can be delayed or stalled if the budgetary mechanisms are defective. Therefore, one popular topic in economic development in many of these East Asian countries is budgetary reforms.

(e). Tax Policy

On the reverse side of budgetary policy is tax policy. Most East Asian countries with some exceptions of the NIEs depend on indirect taxes as a major source of their public revenues. Any tax change will affect different people differently, and the different distributive effects can be a very important reason why a certain tax, say inheritance tax, is so difficult to be instituted, and why a certain tax, say consumption tax, has become more popular among free traders. The political economic explanation of certain tax changes in each to the 8 economies could supplement the traditional analysis of tax changes that look at the incidence and the economic aspects of these changes only.

(f). Monetary Policy

The causes of economic crisis that had plagued many East and South-East Asian countries at present can be traced to the mismanagement it their financial sectors. This should make monetary policy a closely observed public policy in the post-crisis period. Naturally the independence of the central banks remains a very important issue to be debated in these countries. But more than this, it is also important to understand the scope of activities of these central banks: How closely they need to monitor money supply? What other financial instruments are needed in the future? How to regulate and provide supervision to banking and other financial institutions? Should inflation targeting be a major goal or objective of these central banks today? And so on.

(g). Price Policy

To continue on the last heading, increase in the price level or inflation is one of the most feared economic conditions of most government leaders. Inflation policy can include appropriate implementation of monetary policy, but it can be extended to cover other aspects of policy determination as well such as exchange rate policy (undervalued or overvalued currency), industrial policy (more production in the rural areas to save costs), protection policy (import tax reduction to reduce industrial protection, leading to lower prices of products). Regional price differences within one country can also create a major economic and political problem.

(h). Investment Policy

Foreign direct investment (FDI) provides one of the fastest routes toward larger capital accumulation and production which lead to faster economic growth and development. To make up for foreign exchange gap as well as technological knowledge gap, developing countries rely on these FDIs to move up quickly their development ladders. The so-called ‘investment incentives’ are standard packages that these recipient countries offer the investing countries, be they tax concessions, preferential treatments, or special regulations regarding movements of personnel and profit repatriation. But FDI does not depend on these incentives alone. Indeed, it is often found that other factors such as political stability, business transparency, and trust in the political and economic systems are better explanations for inflows of FDI. It is interesting to compare the reasons for FDI in each of the East Asian economy.

Table 1 gives a comparative picture of some important macroeconomic indicators in 8 East and South-East Asian countries during the last 10 years or so. It will help us see the trend of macroeconomic changes across the region, which will in turn help us notice regional differences and launch further investigation.

5. Case Studies of the 'Turning Points'

While the political economic explanations of the above policies are of great interest to those who seek deeper understanding of the process of growth in developing countries, it is obvious that not all policies are of equal importance. Some policies may be more important than others with regard to the impact they would have on the economy (measured in terms of income or number of people affected). In addition to the analysis of the political economy of policy-making in the above section, therefore, this section proposes studies on specific policy changes which have momentous impacts on the economy in question. These policy changes are often associated with events that caused major changes in the country or economy. Those changes may be long-term in nature, but they can also be short-term but the impacts must be large and noticeable. We call these events 'turning points' which vary from one country to another. Each country normally has more than one turning points of major importance, but at least one most, or more, important turning point will be selected and discussed in some details. This discussion forms part of the case studies that add to the main body of the political economy of growth.

Going down the list of 8 East and South-East Asian countries, it is possible to select one turning point in each country as follows:

(a). China

As mentioned in Section 3 above, China spent 30 years experimenting with economic development under communism to an unsatisfactory result. During these 3 decades, the Chinese people had gone through forced collective farming, forced heavy industrialisation, political turmoil, and debilitating famine. Only after Mao's death in 1976 and the rise of Deng Xiao-Peng in 1978 that China began to change to market economy. The rise of Deng's power and his economic philosophy and practises is rightly a major turning point in modern Chinese economic history. The political economy of this turning point not only will enhance the understanding of the present Chinese economic system, it also will help the understanding the course of action regarding current and future economic development that the modern Chinese economic leaders are likely to take.

(b). Korea

The decision to switch to heavy and chemical industrialisation by President Park Jung-Hee of Korea in 1973 qualifies for an important turning point in the Korean economic history. In the ensuing 6-7 years, the Korean economy had gone through enormous changes, good and bad. The political economy considerations that influenced Park and his technocrats and advisers, and their running relationship with chaebols must be looked upon as very crucial and very interesting. A close analysis of this turning point may prove or disprove the effectiveness of coalition theory between the state and big business.

(c).Taiwan

Korea and Taiwan are often compared as to their adopted development strategies. Korea was known to favour large enterprises (Les) whereas Taiwan small and medium enterprises (SMEs). The conditions under which the Taiwanese leaders decided to go the SME route are certainly different from the conditions faced by the Korean leaders. But the support from the state was probably the same, that is the Taiwanese government still had to provide concessionary loans and technical services to these SMEs. The analysis of the political economy of this policy turning point which started in the early 1980s would be very useful.

(d). Singapore

After successful import-substitution policies during 1959 to 1965, and export orientation policies during 1966 to 1973, the Singapore government embarked on a new phase in its development. The Industrial Restructuring Phase which started in 1973 was certainly an important turning point for Singapore. The government no longer wished to keep on promoting the export expansion of such traditions items as textiles, garments, electronic components and ship repairs, but to encourage investments in skill- and technology-intensive sectors such as computers, electronics, machinery, and pharmaceuticals in order to generate more value added. A high-wage policy was adopted to force new industries to move away from low-tech, low value-added, labour-intensive activities. Even unskilled foreign workers were affected by this policy when their wages were subject to a levy to force higher wage for Singaporean workers. This policy was successful, as Singapore was able to move up to technologically sophisticated ‘upstream’ manufacturing activities towards to the end of 1970s and early 1980s. How can we explain the origin of this policy?

(e). Malaysia

Without a doubt, the New Economic Policy of 1970 was a turning point for Malaysian economic development. Malaysia today saw an enormous improvement in the life and livelihood of indigenous Malays. To boldly adopt this policy in the face of explosive ethnic problems required a deep political economic understanding of the situations at that time. Not only the ethnic problems that the Malaysian government must face, it also had to face the choice of economic strategies to move the economy forward quickly.

(f). Thailand

The economic boom in Thailand in mid-1980s had changed the picture of old Thai economy completely. The development was not only rising; it had shifted up. The ensuing bubble economy created a sense of euphoria that fooled most people, including the Thai monetary authorities who jumped on extensive financial liberalisation. It is this financial liberalisation and its unintended results that gave rise to the financial and economic crisis in July 1997. Who were involved in these decisions, and why?

(g). Philippines

On looking back, the most prosperous economy in South-East Asia in the postwar period, had turned into 'a poor man of Asia' in the 1970s and 1980s. The long years under authoritarian rule of President Marcos were to blame for this. The end of President Marcos and the beginning of President Aquino in the year 1986 was an important turning point in economic strategies and management for the Philippines. But the success in the new development policy is hard to come by. Why? Despite the popular support of the new government, many public policies were ineffective (land reform policy, for instance). What are the political economic reasons for the relative lack of success of these 'People Power' policies?

(h). Indonesia

The political event that saw the rise to power of General Suharto in 1965 can be looked upon as an important economic turning point in Indonesia. But nothing extraordinary happened in Indonesia in the first 20 years under Suharto's rule. Indonesia was blessed with discovery of oil and good oil prices in the beginning to the end of 1970s, and the oil money had helped the government provided for infrastructure and social services for Indonesians. It was when the oil price boom faded in the early 1980s that Indonesia faced a new, probably more important, turning point, that is when General Suharto announced his New Order in the early 1980s with sweeping economic reforms, deregulation, and liberalisation. This New Order policies had propelled Indonesia into a most dynamic economic in Asia in the 1990s but with a curious mix of good market efficiency and bad corruption, nepotism and cronyism. The political economy story of the New Order in Indonesia should make a very good case study indeed.

6. Conclusions

In this thematic paper on the political economy of developing East Asia, I have attempted to construct a framework that can be used to study the political economy of growth in 8 selected countries in East and South-East Asia. This framework is based on the power relationships among individuals or groups of individual or institutions (which contain individuals or groups of individuals) in deciding on certain policies that affect growth. In other words, this framework seeks to explain how a certain policy is determined, who are involved, who gains, who loses, and how to evaluate the outcome of the interplay of these powers in terms of resource allocation and economic efficiency. In order to do this, one must be familiar with political and economic environment surrounding the policies being studied. This entails full knowledge of historical evolution of policies and different individuals or groups of individuals involved with such policies.

The selected 8 countries, namely China, Korea, Taiwan, Singapore, Malaysia, Thailand, Philippines, and Indonesia have developed from long and different histories, under different political, economic and social systems. Yet, I have tried to point out that there are common features that we can discern from the past growth experience of these countries. Some of these common features include the strong and decisive roles of political leaders, the preponderance of power of the executive branch of the government, the tendencies for the population at large to comply with the wish of the government, and general tendencies of these political leaders or other political elite to adopt or follow market-oriented decision-making. With these common features, it is not surprising that these developing East and South-East Asian economies have all grown very fast. Despite the current economic crisis that had troubled many of these countries, it is conceivable that this crisis is of short-term nature resulting from the sudden loss of confidence of foreign investors. It is the sudden and massive outflows of capital in response to the mismanagement in the financial sector that caused the crisis, not the basic or fundamental weakness in macroeconomic management. If this is true, then once the external confidence is restored, and the internal financial system is reformed, these economies could continue to grow rapidly again in the near future.

The above understanding is important as a pretext for the political economy study of various policies affecting growth in these countries. Eight sets of policies are perceived as crucial or important to economic growth. They are overall growth policy, trade policy, exchange rate policy, expenditure policy, tax policy, monetary policy, price policy and investment policy. In this paper, I have explained how each of these policies could affect growth, and in studying these policies, who could be involved and how. Finally, I have suggested the importance of ‘turning points’ in historical evolution of each country. By selecting appropriate turning points and conduct detailed analysis on the political economy aspects of these turning points, we can gain a great deal of knowledge and understanding of how these turning points had come about, and why they had led to certain outcomes.

The study of the political economy of growth has become an important supplement to the study of economic outcomes of a certain policy. It has broadened the perspective of several policy issues, and enabled the economists and political scientists who normally work independently of each other to come to work together for a better result. It is hoped that political economy studies in each region of the world along the line or framework suggested in this and other thematic papers will enhance the study of economic growth and development of nations even further.

Annex A: The Political Economy of Telecommunications Liberalisation Policy in Thailand [18]

In Thailand today, one of most hotly-debated issues is when and how to privatise state-owned enterprises. And one of the most difficult problems of privatisation are found in the privatisation attempts and efforts in the telecommunications industry. This is the area where many institutional players are involved, and the relationship among these players were so complex it could set a new definition and benchmark about the state-society role in economic policy-making.

It all began during the late period of General Prem Tinsulanond's government in the latter half of the 1980s involving the granting of licence to operate pager service to a private company by the Communications Authority of Thailand (CAT), a telecommunications enterprise under the aegis of the Ministry of Transport and Communications (MOTC). [19] Of course the general policy to privatise telecommunications services, especially those belonging to the Telephone Organisation of Thailand (TOT), was already in place during the early Prem period in the early 1980s, but the vested interests in this organisation was so entrenched that even the strong government of General Prem could not bring about a proper privatisation quickly. The vested interests here consisted of high-ranking bureaucrats of the TOT and the CAT, military leaders who were chairmen or sit in the boards of these telecommunications enterprises, the labour unions of these two enterprises whose combined memberships were among the largest in the country, and the political parties or politicians who set up policies at the top. The magnitude of telecommunications services and the benefits involved were so large that indeed it was not possible for the government to even combine the TOT and CAT into one telecommunications enterprise. [20]

After the first paging service was granted to a private company in 1986 by the CAT, four more paging services were granted in 1989 and 1990, but this time both TOT and CAT were actively involved. Each of these paging services cost about 200-500 million baht, which was quite small compared to the next series of telecommunications services, card phone services, cellular telephone services, optic fibre services, radio telephone services, satellite telecommunications, and basic household telephone services. Take the cellular telephone services, for example. The TOT gave the operations to the Shinnawatra Group, whereas the CAT gave the operations to the UCOM Group with the cost ranging from 3,000 to 5,000 million baht each. [21] The biggest contract of all, perhaps, was the granting of concession to

[18] The account and analysis on this part is based on the comprehensive and insightful study on the political economy of telecommunications liberalisation by Sakkarin Niyomsilpa. See Sakkarin (1995).

[19] General Prem was a former Commander-in-Chief of the Thai Army who was drafted to become prime minister in 1980. He was not an elected politician but was supported by a certain majority of political parties. In a way he was not accountable to any political constituencies but on his own reputation and his presumed trust by the King.

[20] The TOT deals with traditional cable-based telephone services whereas the CAT deals with radio-based telephone and communications services. However, those who support the separation of these service providers into two believe that having the two enterprises working practically on the same services could benefit the consumers and the society through keener competition between these two providers.

[21] The founder of the Shinnawatra Group was Dr Thaksin Shinnawatra who later became a leader of a political party and served many times in various government including the last government of General

operate 3 million numbers of ordinary telephone services to two companies, the CP Group (2 million numbers in Bangkok), and the Jasmine Group (1 million numbers in the countryside). The 3-million number project cost over 13 billion baht with the concession period of 25 years.

Now most telecommunications services in Thailand are all divided among these few private companies whose owners or major shareholders have become very rich basically because of the monopolistic practices of charging high fees and high prices for the service. Take the founder of Shinnawatra Group, Dr Thaksin Shinnawatra, for example. His combined net worth adds up to more than 57 billion baht, making him one of the richest men in Thailand. His other monopolistic 'competitors' did not do too badly either. A table taken from Sakkarin (1995, p. 163) showed that the assets of the Shinnawatra Group increased from 686 million baht in 1989 to 55,976 million baht in 1994. For the other two concessionaires, the UCOM Group and the Samart Group, the assets for the same time periods increased from 719 million baht to 19,326 million baht, and from 313 million baht to 4,319 million baht, respectively (see Table 4). With so much money in the family, getting into politics was easy.

Because there is so much money involved, telecommunications industry is where the hottest contest to gain control over policy making takes place. The contest and conflicts which involved several people or groups of people take the following shapes and forms.

(a) The Bureaucrats

Those high-ranking officers or officials of the TOT and CAT who operate these two organisations on a day-to-day basis would fall under this category of players. They may include the Managing Directors and Deputies Managing Directors of the TOT and Chiefs of various divisions in this organisation. For the CAT, they may include the President and Vice Presidents and again Chiefs of various divisions in this organisation. High-ranking officials in the MOTC, starting from the Permanent Secretary of the Ministry down and including Directors-General of various departments and division directors, can also play important parts in certain policies. For example, the power to allocate radio frequencies (for mobile telephone services) is vested in the Director-General of Post and Telegraph Department, not the CAT President or CAT Board. Although it may appear that these government or public enterprise bureaucrats will have to follow the orders of both the decisions or resolutions of their respective Boards and the decision of the Minister in charge of these public enterprises, they can behave in an uncooperative manner if they dislike or disagree with those decisions or resolutions (such as by concealing crucial information, delaying the implementation, instigating problems, and so on). We have witnessed several cases of these officials being removed from offices by those with higher power for not following given policy directives or disobeying other orders.

Chavalit Yongchaiyudh in a position of deputy prime minister. The UCOM Group founder was Mr Boonchai Benjarongkul who has been a long-time supporter, and sponsor, of the Social Action Party which was a member in the last government of General Chavalit and also in the present government of Mr Chuan Leekpai. Politicians from the Social Action Party controlled the MOTC during 1988 to 1990 when several telecommunications concessions were given to various private companies. A person from the Benjarongkul family is now a deputy minister in the current government.

Perhaps within each state enterprise, we could count members of the enterprise board also as bureaucrats because, traditionally, the majority of these members, especially the chairman of the board, were drawn from active as well as retired military officers. These board members could ally with the permanent enterprise officials, with the minister in charge of that enterprise, with the business people who do business with these enterprises, or with the labour unions of these enterprises. Or they can ally with one and not the other, and vice versa. One can see several possibilities that these alliances can be formed among these players, making the outcome of the interplay very complicated indeed. [22]

(b) The Political Power

The minister of transport and communications who is automatically in charge of the TOT and CAT can play a very dominant role in setting telecommunications policies. Of course the job of a minister is to set policies, but the ways in which each minister goes about setting his or her policies can be very different from one to another. Some would come in and work quietly and harmoniously with the permanent staff of ministry of state enterprises, but some would come in aggressively and even change the organisation structure of the enterprise in question completely. One of the most frequent shows-of-power of these aggressive ministers is to reappoint the whole enterprise board, or install a new managing director or president of the enterprise. In this way, the minister could exert his political power fully and gain certain benefits from the implementation of his policies. But this tactic can also backfire as he may counter resistance from other quarters such as from other politicians, political parties, labour groups, or business interests. This does not mean that ministers are always bad or corrupted and the bureaucrats and business people are always good and proper. In fact the opposite may be true that a good minister is fighting alone in the sea of corrupt officials and greedy business people. The character of each minister, or his political party often determines the character of policy in this complex telecommunications industry.

(c). The Business People

In this telecommunications industry, it may appear that it is a group of private businessmen—entrepreneurs—who make things happened. Who would imagine that within a space of a few years Thailand would have its own communications satellites, extensive cellular telephone services, electronic data communications, submarine fibre optics, widespread internet services, and so on. This is mainly the work of these private entrepreneurs who seized upon opportunities open for them. But while these opportunities are open, not everyone can make use of it, and some could make a better use of the same opportunity than the others. In addition to business acumen, timing and connections are important here. We can quote two successful businessmen in telecommunications industry, Dr Thaksin Shinnawatra and Mr Boonchai Benjarongkul. Thaksin explained his success in acquiring many government projects: "…Because of my understanding of government rules and regulations which my competitors do not comprehend, I therefore have an edge over them in a bid".(as quoted in Sakkarin, 1995, p. 121). Boonchai was not less sanguine. He said: "…Connections are always important. No matter whether we undertake a joint

[22] There was an actual case where a managing director of the TOT was sacked by a minister of transport and communications for not following his order, but he found sympathy among board members and labour union leaders who tried to challenge the power of the minister in charge. The show-down had to be averted by direct intervention of the prime minister himself.

venture with other private firms or not, our market is still mainly the government. Therefore, our duty is to maintain government connection" (also in Sakkarin, 1995, p. 121). Of course there are no records which show that these connections require monetary rewards, but it is not unreasonable to expect that the coalitions between the policy makers and the private business beneficiaries may produce economic rents of some sorts. [23]

(d) The Labour Union

It has been alluded to earlier that the state enterprise labour unions are the strongest among labour unions in Thailand, and they could pose a real obstacle to state enterprise privatisation and liberalisation if they did not like it. We have seen situations when the telecommunications labour unions joined hands with the telecommunications bureaucrats to oppose certain policies that adversely affected their immediate or short-term interests. But the situations have changed of late. First, the state enterprise labour unions were banned by the military coup leaders in 1991. When they were allowed to resume their activities a couple of years later, their potential power to stop work was very much curtailed. More importantly, the earlier experience of privatisation and liberalisation had proven to labour leaders that privatisation in this present world of globalisation yielded greater benefits than costs. It has become quite obvious that their role in economic policy-making has declined.

What lessons can we draw from the above complex interplay among the three or four players in the economic policy-making game? Sakkarin (1995) offered an orderly interpretation of these seemingly confusing situations. He believed that all the intricate interplays in the telecommunications industry in Thailand could be boiled down to a bipolar position, that is to say, either one is pro-reform in the telecommunications industry or is anti-reform. A pro-reform player will support liberalisation in the industry whereas an anti-reform player will oppose any change that reduces his or her present rents or profits. The process of decision-making in this industry, therefore, could be termed 'liberalisation coalition' whereby several elements in this coalition are more equal and strategic partnership combining political parties, business and technocrats is possible. We could end this section by quoting a lengthy statement by Sakkarin at the end of his dissertation about the relative importance of each of the three forces that determined policies in the telecommunications industry as follows:

> "Because the bureaucracy is still the most highly organised public institution controlling information and setting up rules and regulations in most areas of society, it has remained influential despite its reduced role in the political system. Moreover, since political parties are not yet well-established and their structure are still rudimentary, the bureaucracy remains a large political shadow hovering behind the parties whenever their popular support is shaken by political scandals or internal conflicts….But because political power is now shared among many actors with political parties now being the channels through which the interests of business firms, technocrats, some military elements, and others are represented, competition between the bureaucracy

[23] A good case in point is when the TOT refused to upgrade the local telephone services in several areas of Bangkok so that direct international dialling would be possible. Instead, it forced private individual households to apply for a new number (and a new telephone) from a private company which is its concessionaire.

and parties is no longer narrowly constrained to a struggle between these two players, but has become more widely extended to other powers and interests as well. As the bureaucracy itself also consists of competing rivalries between the military and the parties are becoming a matter of coalitional conflict between the progressive reformists and the more conservative interests, rather than merely institutional conflicts between two sides".

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Table 1: Salient Economic Statistics of East Asian Economies

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999e
1. Economic growth (% change of real GDP in domestic currency)													
China	11.6	11.3	4.1	3.8	9.2	14.2	13.5	12.6	10.5	9.6	8.8	7.8	7.5
Korea	11.0	10.5	6.1	9.0	9.2	5.4	5.5	8.3	8.9	6.8	5.0	-5.8	8.5
Singapore	9.7	11.6	9.6	9.0	7.0	6.6	12.8	11.4	8.1	7.6	8.9	0.3	5.5
Taiwan	12.7	7.8	8.2	5.4	7.6	6.8	6.3	6.5	6.0	5.7	6.8	4.7	5.5
Indonesia	5.3	6.4	9.1	9.0	8.9	7.2	7.3	7.5	8.2	7.8	4.7	-13.2	0.0
Malaysia	5.4	9.9	9.0	9.0	9.6	8.9	9.9	9.2	9.8	10.00	7.5	-7.5	4.5
Philippines	4.3	6.8	6.2	3.0	-0.6	0.3	2.1	4.4	4.7	5.9	5.2	-0.5	3.0
Thailand	9.5	13.3	12.2	11.2	8.6	8.1	8.4	9.0	8.9	5.9	-1.8	-10.36	4.0
2. Inflation (% change in GDP deflator or consumer prices)													
China	5.1	12.1	8.8	5.7	6.7	7.9	14.6	19.9	13.2	5.9	0.8	-1.1	-1.5
Korea	5.5	7.5	5.6	10.0	10.9	7.6	7.1	7.7	7.1	3.9	3.2	5.3	1.0
Singapore	0.7	5.7	4.7	4.8	3.9	1.5	3.3	2.8	2.9	1.1	1.4	-1.0	0.4
Taiwan	0.6	0.9	3.3	3.8	3.9	3.9	3.5	1.9	1.9	2.7	1.9	2.5	0.5
Indonesia	15.4	13.0	10.0	7.7	8.8	5.4	8.9	7.8	9.9	8.7	12.6	73.0	18.0
Malaysia	5.5	3.6	4.5	3.8	3.6	2.4	4.0	3.9	3.6	3.7	3.3	9.1	3.5
Philippines	7.5	9.7	9.0	13.0	16.5	7.9	6.8	10.0	7.6	7.7	6.0	10.8	8.0
Thailand	4.7	5.9	6.1	5.8	5.8	4.5	3.3	5.2	5.8	3.9	4.3	9.6	-1.0

Table 1: Salient Economic Statistics of East Asian Economies (cont).

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
3. Annual average exchange rates (% change of domestic currency units per US$)													
China	-7.2	0.0	-1.1	-21.3	-10.1	-3.5	-4.3	-33.2	3.2	0.5	0.3	0.1	0.0
Korea	7.16	12.5	8.9	-5.1	-3.5	-6.1	-2.7	-0.1	4.2	-4.1	-15.4	-32.1	17.9
Singapore	3.4	4.7	3.2	7.6	4.9	6.1	0.8	5.8	7.8	0.5	-5.0	-11.3	-1.3
Taiwan	19.2	11.0	8.3	-1.8	0.3	6.6	-4.7	-0.3	-0.1	-3.5	-4.3	-14.2	3.7
Indonesia	-22.0	-2.5	-4.8	-4.0	-5.5	-3.9	-2.7	-3.4	-3.9	-4.0	-19.5	-71.0	27.6
Malaysia	2.5	-3.8	-3.3	0.1	-1.6	8.0	-1.0	-1.9	4.8	-0.5	-10.6	-28.3	3.3
Philippines	-0.9	-2.5	-3.0	-10.6	-11.5	7.7	-5.9	2.7	2.7	-1.9	-11.0	-27.9	4.6
Thailand	2.2	1.7	-1.6	0.5	0.3	0.5	0.3	0.7	0.9	-1.7	-19.2	-24.2	9.3
4. Per capita GDP in current US$													
China	296	364	401	342	353	415	510	455	581	671	730	772	809
Korea	3,279	4,336	5,242	5,893	6,823	7,208	7,847	9,055	10,874	11,422	10,360	6,908	8,846
Singapore	7,990	9,698	11,270	13,556	15,494	17,417	20,050	23,835	28,019	30,057	30,913	26,694	27,341
Taiwan	5,184	6,191	7,417	7,870	8,725	10,221	10,630	11,408	12,214	12,683	13,065	11,918	12,986
Indonesia	446	514	577	639	703	750	838	923	1,038	1,146	1,072	461	683
Malaysia	1,943	2,067	2,210	2,432	2,649	3,107	3,420	3,704	4,294	4,764	4,624	3,268	3,567
Philippines	575	638	698	708	709	808	810	933	1,055	1,152	1,118	867	987
Thailand	957	1,149	1,323	1,535	1,739	1,944	2,156	2,461	2,828	3,031	2,485	1,834	2,044
5. Exports/GDP (%)													
China	12.19	11.45	10.65	14.80	16.23	16.32	14.45	21.97	21.03	21.03	23.07	21.65	-
Korea	40.18	38.41	32.73	29.09	27.35	27.65	27.54	27.82	30.20	29.50	34.73	48.74	42.62
Singapore	170.99	191.53	185.53	184.05	175.58	168.61	167.40	173.20	177.20	170.45	162.85	152.41	-
Taiwan	57.32	54.34	49.59	46.76	47.40	43.38	44.24	44.11	48.78	48.55	49.24	49.07	45.51
Indonesia	23.93	23.78	24.29	25.27	25.55	27.88	26.75	26.51	26.31	25.82	27.86	53.69	35.27
Malaysia	63.76	67.32	73.10	74.47	77.83	75.98	78.92	89.15	95.42	91.58	93.20	114.36	120.52
Philippines	26.64	28.39	28.12	27.51	29.60	29.13	31.36	33.82	36.36	40.51	49.06	55.42	51.61
Thailand	28.89	33.01	34.92	34.13	35.96	36.97	37.82	38.76	41.79	39.22	47.96	58.54	56.67

Table 1: Salient Economic Statistics of East Asian Economies (cont).

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
6. Imports/GDP (%)													
China	12.10	12.46	11.75	12.04	13.37	15.28	16.36	20.56	19.32	18.88	18.56	17.30	-
Korea	32.42	30.47	30.02	30.26	30.36	29.14	27.49	28.96	31.68	33.61	35.75	35.82	35.16
Singapore	170.79	184.41	177.71	177.13	164.86	158.75	159.50	158.16	161.62	156.81	150.12	134.64	-
Taiwan	39.97	43.61	42.09	41.78	42.87	41.29	42.35	42.21	46.81	44.71	46.49	47.06	43.73
Indonesia	22.40	21.09	21.41	23.73	24.10	24.96	23.77	25.37	27.65	26.44	28.13	43.81	27.51
Malaysia	49.64	56.95	66.87	72.42	81.49	74.63	79.02	90.75	98.02	90.19	92.27	92.56	93.25
Philippines	26.22	26.94	30.27	33.28	32.59	34.03	39.80	40.13	44.18	49.29	59.43	59.15	53.44
Thailand	28.33	34.40	37.49	41.65	42.51	40.98	41.56	43.60	48.52	45.50	46.57	42.60	44.21
7. Current account balance/GDP (%)													
China	0.09	-0.95	-0.96	3.09	3.27	1.33	-1.93	1.27	0.23	0.89	3.31	3.06	1.20
Korea	7.38	7.97	2.41	-0.79	-2.82	-1.25	0.29	-0.96	-1.74	-4.42	-1.71	12.64	5.84
Singapore	-0.53	7.69	9.93	8.51	11.40	12.05	7.31	16.32	17.25	15.86	15.67	20.86	20.80
Taiwan	17.65	8.27	7.65	6.82	6.95	4.03	3.16	2.70	2.10	4.04	2.54	1.35	2.08
Indonesia	-2.77	-1.57	-1.09	-2.61	-3.32	-2.00	-1.33	-1.58	-3.18	-3.37	-2.27	4.22	3.52
Malaysia	8.00	5.29	0.81	-1.98	-8.51	-3.66	-4.47	-6.07	-9.53	-4.56	-4.78	12.95	12.00
Philippines	-1.34	-1.03	-3.42	-6.08	-2.28	-1.89	-5.55	-4.60	-2.67	-4.77	-5.30	1.97	9.26
Thailand	-0.73	-2.68	-3.46	-8.53	-7.71	-5.66	-5.08	-5.59	-8.07	-8.08	-2.01	12.68	8.03
8. External debts/GDP (%)													
China	11.00	10.59	10.00	14.26	14.84	14.99	14.30	18.52	16.86	15.78	16.33	-	-
Korea	34.81	24.11	18.89	18.59	18.17	18.26	18.17	23.36	23.51	25.32	30.09	41.75	30.61
Singapore	19.09	15.25	14.07	10.38	10.31	9.48	9.71	10.95	10.06	10.77	13.04	-	-
Taiwan	19.09	14.39	11.45	11.04	10.74	9.37	10.44	10.87	10.40	10.07	11.84	-	-
Indonesia	69.31	60.91	58.55	61.06	62.07	63.26	56.44	60.95	61.54	56.71	63.12	154.37	-
Malaysia	70.97	52.64	41.90	34.82	34.76	33.84	39.09	40.73	38.66	39.34	47.13	63.27	57.94
Philippines	89.72	76.37	67.30	69.01	71.45	62.30	66.10	61.50	51.04	48.46	55.30	73.31	63.62
Thailand	39.61	34.16	31.63	34.34	38.56	39.14	41.62	44.89	49.15	49.79	62.02	76.76	62.33

Table 1: Salient Economic Statistics of East Asian Economies

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
9. International reserves (US$ million)													
China	16,305	18,541	17,960	29,586	43,674	20,620	22,387	52,914	75,377	107,039	142,762	149,188	153,996
Korea	3,584	12,347	15,214	14,793	13,701	17,121	20,228	25,639	32,678	34,037	20,368	51,975	66,147
Singapore	15,227	17,073	20,345	27,748	34,133	39,885	48,361	58,177	68,695	76,847	71,289	74,928	75,941
Taiwan	76,748	73,897	73,224	72,441	82,405	82,306	83,573	92,454	90,310	88,038	83,502	90,341	101,652
Indonesia	5,592	5,048	5,454	7,459	9,258	10,449	11,263	12,133	13,708	18,251	16,587	22,713	26,181
Malaysia	7,435	6,527	7,783	9,754	10,886	17,228	27,249	25,423	23,774	27,009	20,788	25,559	29,962
Philippines	968	1,003	1,417	924	3,246	4,403	4,676	6,017	6,372	10,030	7,266	9,226	12,741
Thailand	2,940	3,098	3,854	4,117	4,611	4,899	5,179	5,184	4,899	4,985	3,944	6,241	6,504
10. Current revenue/GDP (%)													
China	18.39	15.79	15.76	15.84	14.57	13.08	12.56	11.16	10.67	10.91	11.62	12.44	-
Korea	16.51	16.94	17.10	17.52	16.60	17.45	17.96	18.47	18.73	19.81	20.02	21.05	-
Singapore	28.10	27.84	27.35	28.62	29.75	31.71	31.67	31.02	33.75	36.91	40.05	42.26	41.19
Taiwan	11.97	12.50	14.45	16.28	12.84	13.94	13.62	13.80	13.53	12.63	12.37	13.30	-
Indonesia	16.71	15.37	16.00	18.75	16.64	17.30	17.02	17.38	17.69	17.41	18.46	-	-
Malaysia	22.38	23.78	24.02	24.79	25.20	26.05	24.21	25.30	22.90	22.97	23.32	19.94	18.60
Philippines	14.73	13.19	15.87	16.19	17.12	17.69	17.44	18.05	18.77	18.80	19.25	17.26	16.01
Thailand	15.54	16.55	17.62	18.85	18.46	18.06	18.14	18.72	18.57	18.51	17.94	15.46	14.69
11. Current expenditure/GDP (%)													
China	18.91	16.69	16.70	16.63	15.67	14.05	13.40	12.39	11.67	11.69	12.40	13.60	-
Korea	12.78	12.58	13.42	13.79	13.84	14.42	14.08	13.87	13.00	13.25	13.66	15.47	-
Singapore (exp. + loan)	32.85	21.65	26.17	18.85	19.49	19.78	17.71	18.76	20.37	22.28	30.49	25.87	23.34
Taiwan	9.58	9.95	10.38	10.28	10.88	12.99	12.18	11.09	10.90	11.15	11.04	10.57	-
Indonesia	11.26	10.05	10.22	10.98	9.17	9.14	9.14	8.90	7.93	9.24	10.88	-	-
Malaysia	24.89	22.96	21.84	21.02	20.94	21.29	18.71	17.94	16.44	17.29	15.85	15.67	15.27
Philippines	13.99	14.04	15.43	16.52	15.75	15.90	15.37	15.26	15.17	16.26	17.32	17.57	-
Thailand	13.90	12.41	12.18	11.41	11.32	11.55	11.27	10.54	10.39	10.83	10.85	12.39	12.78

Table 1: Salient Economic Statistics of East Asian Economies

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
12. Overall fiscal balance/GDP (%)													
China	-0.53	-0.90	-0.94	-0.79	-1.10	-0.97	-0.85	-1.23	-0.99	-0.78	-0.78	-1.16	-
Korea	0.43	1.07	0.19	-0.68	-1.61	-0.48	0.61	0.64	0.56	0.42	-1.27	-3.77	-
Singapore	-4.75	6.19	1.18	9.77	10.27	11.93	13.96	12.27	13.38	14.62	9.56	16.39	17.85
Taiwan	0.02	0.08	1.34	1.89	-2.24	-5.44	-3.95	-1.75	-1.11	-1.35	-1.69	0.15	-
Indonesia	-3.48	-2.29	-1.37	-0.85	-0.71	-1.13	-0.52	1.00	2.22	1.44	1.39	-	-
Malaysia	-7.59	-3.56	-3.24	-2.89	-1.95	-0.82	0.21	2.26	0.84	0.72	2.35	-1.76	-7.29
Philippines	-2.65	-3.08	-2.26	-3.66	-2.35	-1.31	-1.59	0.92	0.53	0.26	-0.01	-1.89	-4.67
Thailand	-0.43	2.34	3.27	4.83	4.30	2.57	1.88	2.68	3.02	0.94	-0.32	-2.78	-3.23
13. M1/GDP (%)													
China	38.24	36.76	34.50	37.79	41.58	43.98	48.39	46.07	43.77	45.17	51.49	54.43	52.01
Korea	9.01	9.13	9.61	8.90	10.05	10.01	10.47	10.05	10.30	9.45	7.73	7.92	6.91
Singapore	25.67	23.58	23.62	22.96	22.22	23.16	24.58	21.95	21.37	20.96	19.31	19.27	19.07
Taiwan	48.29	55.21	52.37	44.71	44.87	45.45	47.61	49.23	45.89	45.82	45.69	44.20	44.96
Indonesia	10.20	9.62	11.45	11.30	10.68	9.73	10.23	10.85	10.37	9.70	10.96	9.26	9.37
Malaysia	19.45	19.31	20.19	20.36	19.91	20.17	24.27	23.78	23.34	23.88	22.48	19.03	19.95
Philippines	7.88	7.66	8.78	8.63	8.63	8.70	9.75	9.45	10.21	10.73	11.00	10.72	10.13
Thailand	10.18	9.52	9.41	8.95	8.87	8.82	9.34	9.53	9.28	9.19	9.10	9.72	10.44
14. M2/GDP (%)													
China	66.52	64.32	67.38	79.16	86.04	91.33	100.30	100.34	103.87	112.10	123.37	132.95	134.19
Korea	35.92	36.76	39.31	38.43	38.68	39.18	40.44	41.18	40.80	42.61	44.90	57.52	60.01
Singapore	86.31	82.99	88.58	93.05	94.04	94.71	88.21	88.10	85.98	86.77	86.66	113.77	113.88
Taiwan	121.26	134.04	141.91	143.99	153.88	165.12	173.12	183.53	185.80	186.88	185.64	187.91	186.20
Indonesia	27.23	28.11	32.59	40.13	39.77	42.16	43.41	44.93	48.05	52.15	55.42	60.31	57.82
Malaysia	73.71	69.36	70.69	70.46	71.11	75.98	81.19	82.04	89.39	93.88	103.66	104.22	102.17
Philippines	27.03	28.79	32.35	34.05	34.48	36.18	42.14	45.66	50.36	54.46	61.61	60.69	56.93
Thailand	62.20	61.30	65.00	70.03	73.10	74.81	79.08	77.85	79.09	80.86	91.88	102.59	101.58

Table 1: Salient Economic Statistics of East Asian Economies

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
15. Lending rate (%)													
China	7.92	9.00	11.34	9.36	8.64	8.64	10.98	10.98	12.06	10.08	8.64	6.39	5.85
Korea	10.00	10.13	11.25	10.00	10.00	10.00	8.58	8.50	9.00	8.84	11.88	15.28	8.86
Singapore	6.10	5.96	6.21	7.36	7.58	5.95	5.39	5.88	6.37	6.26	6.32	7.44	5.80
Taiwan	9.00	9.00	10.38	10.00	8.62	8.30	8.00	8.00	7.80	7.53	7.65	7.87	7.84
Indonesia	21.67	22.10	21.70	20.83	25.53	24.03	20.59	17.76	18.85	19.22	21.82	32.15	23.07
Malaysia	8.19	7.25	7.00	7.17	8.13	9.31	9.05	7.61	7.63	8.89	9.53	10.61	6.79
Philippines	13.34	15.92	19.27	24.12	23.07	19.48	14.68	15.06	14.68	14.84	16.28	16.78	10.12
Thailand	10.71	11.58	12.25	14.42	15.40	12.17	11.17	10.90	13.25	13.40	13.65	14.42	8.50

Source: Adapted from "Recent Trends and Prospects for Major Asian Economies", ***East Asian Economic Perspectives,*** vol. 11, Special Issue, February 2000.