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# **Growth Determinants in East and Southeast Asian Economies**

**Edited by**

**Simon Koppers, Susanne Dings,  
Alberto Klaas and Hans-Erich Wermuth**



**Duncker & Humblot · Berlin**

**KOPPERS / DINGENS / KLAAS / WERMUTH (Eds.)**

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*Hans Erich Gohlich*



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## Laudation

It is one of the more pleasant obligations of a chairman to speak at the various birthday celebrations which are held for meritorious colleagues. And it is particularly enjoyable to pay tribute to Professor Dr. Klaus Erich Rohde whose 60<sup>th</sup> birthday we celebrate today. His charming character, his active engagement in teaching, his interesting scientific work, have won him many friends, disciples and followers.

Klaus Erich Rohde was born in Danzig in May 1931, however, he moved to Braunschweig at the early age of five and stayed there until his Abitur in 1950. He then studied economics at the University of Bonn where he was awarded the degree of Diplom-Volkswirt in 1953. This is an incredibly short time for completing one's studies, in particular if compared to the present average length of time for an economics degree in Bonn, which is approximately 13 semesters! Moreover, Klaus Rohde achieved the best possible grade. In the years following, Rohde worked as scientific collaborator at the Institute of Economics in Bonn. In 1955 he obtained his Dr. rer. pol., once again with the best possible grade (summa cum laude).

By then his interest in economic research had become predominant. After two years of research in Spain and in developing countries in North Africa and in the Middle East he became an assistant professor at the Institute of Economic Policy, where he did postdoctoral research under Fritz W. Meyer. In 1966 he finished his habilitation thesis on "Social Costs in Systems of Market Economies" and became a Dozent in Bonn. His interest in development economics can clearly be seen by his choice of the topic of the test lecture (Probevortrag) on "Problems of Economic Development — the Example of Libya" and the topic of his inaugural lecture as Dozent (Antrittsvorlesung) on the "Organization of Oil-Exporting Countries."

In 1969 Rohde became full professor of economics at the University of Erlangen-Nürnberg and in 1972 he accepted an offer of Bonn University where he became a professor and the director of the Training and Documentation Centre for Foreign Economic Systems and Economic Cooperation, two positions which he currently holds. Professor Rohde continues to lecture on Development Economics to economics students as well as to students in other faculties. He also teaches graduate courses in the theory and politics of inter-



national cooperation, banking and growth-strategies. In recent years he has organized many seminars on topical problems of developing countries with special reference to the Southeast Asian countries.

He likes to travel. Therefore, if he speaks about problems of development economics, he knows these problems from personal experience. Hence, Klaus Rohde is one of those Professors who bring real life into the classroom and help their students understand problems based on examples of economic practice.

Bonn, June 1991

Prof. Dr. Dr. Dieter Bös  
Chairman,  
Department of Economics,  
University of Bonn

## Foreword

This book is dedicated to *Prof. Dr. Klaus E. Rohde* who is the Head of the Training and Documentation Centre for Development Policy, Department of Economics, at the University of Bonn/Germany. One of his most important fields of research over the past several years has been the development of the East and Southeast Asian Economies and the reasons for their success, always keeping in mind the question of the transferability of these experiences to other developing nations.

Already in the 1960s the four "little dragons" Hong Kong, Singapore, South Korea and Taiwan started their industrialization moving steadily upwards with increasing growth rates, some of them double-digit in the 1980s. Most significant for these results has been their export-oriented growth strategy capitalizing on low labour costs and opening them up to the world market with all its benefits and pressures. Until today they have attracted quite a lot of foreign investors bringing technology and skills beside the pure capital. Thus, all four countries have reached a more sophisticated level of production and partly even developed into service and financial centres.

The four "little dragons" are the first-tier Asian NIEs (newly industrializing economies). Nonetheless the ASEAN (Association of South East Asian Nations) members Malaysia, Indonesia, Thailand and the Philippines are following their development path and are also successful. Today they attract a lot of low-labour production as an outward processing base also for the neighbouring little dragons.

Another important development in the East Asian Region is the open door policy and the reforms in PR China which are providing many new opportunities especially in the special economic zones. In addition, they open a tremendous new market as well as an additional base of low-labour production. Recently, the development in North Korea also showed some interesting changes.

Combining these developments with the already advanced Japan, the entire Asia-Pacific Region must be seen as an extremely dynamic area often also mentioned as the "Pacific Challenge". Thus it is of high interest to examine

the determinants of growth behind this challenge, behind the economic success.

In line with these reflections this book analyzes important factors such as development planning, foreign investment, deregulation, government intervention, human capital, finance and banking (service sector), technology transfer and promotion, trade (export promotion), agriculture and regional cooperation. For this purpose experts in Science and Economics report from their experiences sometimes on a more national level, sometimes more regional, sometimes giving an overview and sometimes being more specific. As a whole, however, the reader should get an impression of the determinants of the rapid and dynamic evolution of the East and Southeast Asian Region.

Nevertheless, one should always keep in mind that these are mostly economic developments still leaving many other problems to be solved such as population growth and poverty as well as environmental protection. But as another important factor one should not forget that also a lot still has to be done concerning democratization. The developments show that with rising standards of living also the calls for more democracy often become louder as shown for example in South Korea and Taiwan.

Because of the specific Asian dimension of the success, especially the Asian mentality a transfer of the growth strategy can only be possible to a very limited degree. But the Asian experiences can at least be helpful to the formulation of a country related development strategy showing up generally important growth factors.

After these general remarks the contributors to this book want to wish Professor Rohde a happy 60th birthday. We hope to take part in many of his future outstanding contributions to the field of East and Southeast Asian Studies. We also hope all students of East and Southeast Asian affairs will further be able to participate in the diversity of his experience, thus gaining a deeper insight into the actual problems and developments of the specific Asian countries.

Finally we want to thank Sophia Twarog, Carita Zimmermann, James Adams, and John Ramsey for their correcting the articles and giving helpful hints and practical support. Special thanks are dedicated to Prof. Dr. Rudolf Lassahn and his staff for making his laser printer available to us thus simplifying the layout very much.

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# From Sandlots to the Big League: Some Thoughts on Why East Asia Has Been Winning

Dean Spinanger

## I. Introduction and Overview

The advent of PACRIM Asia as a major player in today's big league economic world is nothing short of being diametrically opposed to accepted knowledge some mere 25 years ago. Let it be remembered that back then a dismal future had been prophesized for this part of the world, with Myrdal's three volume *Asian Drama* providing the seemingly in-depth scientific underpinnings. In this tome, the following statements — not taken out of context — can be found:

- "Asia is a region poorly endowed with resources...
- It is commonly recognized that expansion of export outlets played a crucial role in the early period of development in all the now highly developed Western countries...
- Asia was not unaffected by this movement, ... (but) the initial spurts in production for export did not trigger a cumulative process of development in other sectors...
- In any event, the epoch of rapidly growing export markets has ended...
- Generally speaking, the Asian countries have in recent decades seen the demand for their exports shrink relative to the development of world trade... The outlook for their export earnings is not bright..."<sup>1</sup>

While Myrdal was addressing South Asia as well as the PACRIM region, there can be little doubt that he and many other economists saw problems rather than the potential and underestimated the role which undistorted prices play in signaling where investment opportunities are changing. It is the

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<sup>1</sup> *Myrdal, Asian Drama*, pp. 676 ff.

purpose of this paper to briefly point to some factors which have contributed to this success. This will be done either by putting forth some newer thoughts and by shedding a different light on already known reasons.

## II. Making It to the Big League: the Essentials

The economic success of the PACRIM countries has led to extensive research into the "why and how" of their growth paths. The interest is not just academic curiosity, but rather aimed at revealing what lessons can be learned for other countries in the process of trying to "shape up" their economies. This not being the place for an in-depth review of the literature,<sup>2</sup> it seems appropriate to draw on the conclusions of a concise tour de horizon article on the PACRIM success story by Riedel.<sup>3</sup> There it is noted in concluding that while the policy of *getting the prices right is not the whole story, getting prices wrong often is*. "That is as true for democratic as it is for authoritarian countries, and as true for countries without as for those with a Confucian heritage. The policy lessons that derive from the experiences of the East Asian countries are simple and clear-cut, and for that reason are all too readily ignored or dismissed."

In turning specifically to the PACRIM countries in this connection in order to try to gather evidence beyond what Riedel and other authors have collected or put forth, it can be established that hard evidence on the extent and size of distortions in relative prices is difficult to come by. Aside from the often quoted study of Krueger<sup>4</sup> there are no studies which offer such evidence on a comparable cross-country basis. As can be seen in Table 1 distortions in the two PACRIM countries listed are definitely lower than elsewhere. Yet more important is the evidence on the size of the distortions in relative prices — this in itself tends to underline Riedel's contention that when prices are not "gotten right" they can indeed induce economic havoc. In the final column, growth rates of real exports have been added to show that there is a strong negative correlation with relative price distortions.

Even if hard econometric evidence cannot be drawn, there is, however, an interesting — albeit pedestrian — attempt to link distortions across factor/product markets in DCs with selected economic performance indicators

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<sup>2</sup> Readers are referred to 'Asia-Pacific Economic Literature' (published by the National Centre for Development Studies at the Australian National University) for articles, comprehensive listings and reviews of the relevant literature.

<sup>3</sup> Riedel, *Economic Development*, p. 38.

<sup>4</sup> Krueger, *Trade and Employment*.

Table 1  
Percentage Distortions in Labor and Capital Costs from Various Sources

Country	Period	Percentage Increase in Labor Costs	Percentage Reduction in Capital Costs Owing to				Total	Percentage Increase in Wage/Rental Ratio	Growth Rate of Real Exports 1970-80 <sup>a</sup>
			Trade Regime	Credit Rationing	Other	Total			
Argentina	1973	15	8	9	n.a.	17	38	5.1	
Brazil	1968	27	0	4	n.a.	4	31	10.0	
Chile	1966-68	n.a.	37	n.a.	n.a.	n.a.	n.a.	8.1	
Hong Kong	1973	0	0	0	0	0	0	10.1	
Ivory Coast	1971	23	0	3 <sup>b</sup>	12 <sup>b</sup>	15	45	6.4	
Pakistan	1961-64	0	38	53	10	76	316	0.4	
South Korea	1969	0	0	8	2	10	11	22.9	
Tunisia	1972	20	30	6	n.a.	36	87	7.4	

<sup>a</sup> Calculated from World Bank, World Development Report 1989.

<sup>b</sup> Estimates based on differentials given in *Monson*, Trade Strategies, Table 6.15.

Note: No quantitative estimates are available for Colombia, Indonesia, Thailand, or Uruguay.

Source: *Krueger*, Trade and Employment, Table 7.1.