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New Industrial Coutries in Southeast Asia, Specific Aspects of Industrialization Thereof

D.Kh. Gallyamova
Institute of Management, Economics and Finance, Kazan Federal University,
420008 Kazan, Russia

Abstract: This study is about the features of industrialization in Southeast Asian countries. These countries had impressive economic growth after the Second World War. The main reason of such fast and successful industrialization was taking export oriented model of economy. But each model has its own advantages and disadvantages.

Key words: Southeast Asia, industrialization, export oriented economy, Asian financial crisis, Russia

INTRODUCTION

The New Industrial Countries (NIC) in Southeast Asia which were agrarian states predominantly as early as in the middle of the past century had performed economy industrialization in a limited time and demonstrated an impressive economy surge. For instance while Great Britain spent 60 years to double its production in the beginning of 80's in 17th century and Japan 34 years in the 80's of the past century, South Korea set the same objective in 1966 and succeeded in 11 years only.

In spite of their seemed uniformity the industrial countries in East and Southeast Asia divide into three groups (Gallyamova, 2014).

The first group of new industrial countries consists of the states of confucian civilization: ethnically Chinese Taiwan, Hong Kong and Singapore as well as Korea which was always very proximate to China regarding its culture. These are "four tigers of East Asia". Rapid development of the economy in these countries began in 1960-1965.

The countries of the second wave of development started to change two decades later, in 1980 approximately when Buddhist Thailand and Muslim Malaysia and Indonesia, that were considered to be without an economy prospect, began to demonstrate the signs of development.

Even later, in the middle of 80's market reformations were effected in the countries of the third group, China and Vietnam. These states remaining communistic by form began an active actual implementation of market economy.

MATERIALS AND METHODS

Main idea: New industrial countries in Southeast Asia have adopted export-oriented strategy of industrialization.

Among major component of their success we can distinguish: large volume of low-cost labor and capability to utilize labor resources more intensively. Government policy to assist economy growth (foreign investments support, tax and labor legislature beneficial for transnational corporations, priority of education) Orientation to international industrial specialization and production cooperation vast sales market available. The fact is that in the formative period of Asian industry in the 90's of 20th century a huge sales market emerged in the territory of the former closed USSR, the market of inexperienced consumers that were behind the "iron curtain" before.

The fact that rapid industrialization of the countries of this group was assisted by a structural reformation of the economy ongoing in the developed countries. NIC in SEA were supplied with industrial equipment released from the USA and West European enterprises, the equipment being accumulated outdated permanent assets.

The aspect that Asian NIC followed the Japanese economy model to a large extent and adopted many economical methods of Japan. It became possible due to a similar mentality as well as similar cultural and production traditions, for example, collectivism (opposite to individualism inherent to the USA and Western Europe) allowed implementation of life-long recruitment (Gallyamova, 2014).

Kinhide Mushakoji underlined the specific nature of Japanese economy model: "Japan was industrialized but did not become Western country. Japanese capitalism differs from Western version greatly as it is not based on the formal terms of individualism. It has embodied Western terms selectively with a preference to the terms related to state, wealth accumulation and technocratic rationalism". Meanwhile, foreign transnational corporations played by far greater part there. The formation of export potential in Asian NIC was induced by transnational corporations overcoming national borders and by an active transfer of labor, energy and resource-intensive productions from the developed countries to NIC as well as their output of mass consumer products.

The countries of this group produce a wide range of goods starting from consumer ones to computers, very large scale integrated circuits, cars, ships and airplanes.

The major orientations for the production in NIC are consumer electronics and computer industry. The goods produced in NIC of Asia are exported primarily to the industrially developed countries. The total value of export from NIC in Asia (aggregated) is exceeded only by that from the USA and Germany. Herewith, the share of industrial products in the export thereof varies from 71% (Thailand) to 96% (Taiwan). For example, almost a half of Russian export consists of mineral resources and fuel (Garifullin and Ablaev, 2015).

In general, the economy policies of the first-wave "tigers" Korea, Taiwan, Singapore and Hong Kong had a number of similar features. All of the countries did not have mineral resources, however, possessed such resource as inexpensive and disciplined labor force. Centuries of hard work in rice fields as well as traditional Confucian nurture with its orientation to education, discipline and conformism gradually formed the unique "Far-Eastern attitude".

The best resolution for these countries became export-oriented economies transforming them into a kind of "country-plants" which import raw materials and export end products manufactured by cheap labor of local workers. Apart from the export orientation of economies, "the tigers" had yet another common feature: "new Asian capitalism" was no where near the liberal ideal. Government in the form of authoritarian regime interfered with the economy actively (Hirschman, 1958).

The changes occurred in East Asia in 1960-1990 deserve to be named "miracle" indeed. In the period from 1960 till 1990 the average GDP growth varied from 6.3% in Hong Kong to 7.0 in Singapore. As a result, GDP per capita that was at Nigerian and Ethiopian level in 1960 reached European level and even exceeded it in particular cases.

The development of "the second wave" countries (Thailand, Malaysia and Indonesia) started later and proceeded in another conditions. Chinese migration to the countries of Southern seas began as far back as in 14th-15th centuries. The immigrants with high skills in trade and craft found their place rapidly. In those times Southeast Asia lived under early feudal system and in accordance its population consisted of numerous peasants and a few landlords. Eventually Chinese immigrants virtually monopolized commerce (especially, international one), many crafts and more important, financial field that implied usury above all in those times. As a result the sectors inheriting the future industry and finance fell under sway of Chinese immigrants. Moreover, in 17th-19th centuries, it were they who became principal agents of interaction between Europeans and local population.

From the first years of SEA countries' independency the Chinese are under official discrimination there, for instance, while entering Universities or Public Administration (in Malaysia such policy is not just officially recognized but even fairly named "positive discrimination"). However, this discrimination, "positive" one and any other, did not undermined dominating state of ethnic Chinese in business and finance. For example, in Indonesia the Chinese amount to 2.8% of population but control about 75% of the whole private capital. In Thailand the Chinese minority (10% of population) owns 50% of private capital and injects 90% of all investments.

In the beginning of 80's the countries of Southeast Asia had already an example of "four tigers", modernization success thereof being rather impressive by the time. In addition, foreign investors became assured that injections in Southeast Asia promise to be profitable. International situation was still favorable: the fight with communism was the priority objective for the external policy of the USA, therefore, the stability of allies was important for them as well. So in these conditions the countries of "the second wave" Thailand, Indonesia and Malaysia started the implementation of their economy programs. The development thereof was based on government interaction with business, Chinese entrepreneurs initially. The businessmen who had an access to bodies of government could reckon on profitable orders as well as loans from the banks controlled by authorities, that resulted in a rapid increase in indebtedness of companies (Helen, 1988).

Furthermore, not all of the projects were economically viable. Plants and skyscrapers were often constructed to resolve some political matters (e.g., to create jobs in president's home province) or due to prestigious reasons. A direct corruption was even more often.

Sometimes the businessmen themselves adopted risky decisions which turned out to be wrong later. For instance, in Thailand where economic boom had resulted in a rapid increase in real estate prices huge sums were invested in the construction of office property in 1990's. It was estimated that the demand for office space and price thereof would grow at the same rate further on. With regard to the companie's relation to authorities banks were assured that the government would assume their debts if required. At last, the economy growth seemed to justify the most risky decisions. It resulted in share of non-performing loans to reach 13% of all loans in Indonesia and Thailand and 10% in Malaysia by 1996. Bank's risky decisions are easy to understand: by the middle of 1990's the achievements of Eastern and Southeast Asia were impressive indeed. The situation surpassed the most ambitious expectations of the reformers in 1970's. In 1996, before crisis GNP per capita reached 4.370$ in Malaysia (the level of Hungary, approximately) and 2.960$ in Thailand.

RESULTS AND DISCUSSION

Problems: Finally, in 1997-1998 most of the Asian NIC had been caught in the epicenter of international financial crisis. He crisis began in Thailand. Economical strength weakening of this country was apparent as early as in 1995-1996. The real sector suffered serious problems including the results of rapid wages increase which outrun labor efficiency growth and turned labor-intensive sectors of economy non-competitive against cheap Chinese export in Western markets. In such conditions the currencies of SEA countries and the first of all Thai bat became the objectives of speculative attacks in 1997. The most serious one happened in May. At first, Thai central bank had managed to repel the attacks of international speculators however, it had to pay a heavy price for that. Prior to crisis a system of controlled currency rate ("currency band") was adopted in Thailand. This system was beneficial for Thai companies, as in particular, it facilitated the planning of export-import operations and turned currency rate relatively predictable.

At the 2 of July, 1997 thai central bank having spent most of its reserves by this time to support bat announced free rate of Thai currency exchange. As it should be expected, bat started to fall and by the end of the year the rate reached 50-53 bat per dollar (instead of 25-26 at the beginning). Stock quotations and real estate prices experienced a rapid drop down. A traditional high level of Thai companies' indebtedness suddenly became just irresolvable problem. This was the head of Asian crisis.

In a few days crisis involved the other countries of SEA. Soon a savage currency fall started in Malaysia, Indonesia and South Korea that also had to abolish currency band regimen. The situation was aggravated by foreign capital outflow as well. The foreign investors who were actively injecting the economies of Southeast and East Asia prior to that panicked and rushed to save their capitals the Internet, modern communications and financial technologies facilitate and accelerate this process effectively. As a result, in 1997 the private capital outflow from SEA and Korea amounted to 12 bln. $ while in antecedent 1996 the private investments in these countries reached 93 bln. $. Therefore, the most essential reasons of crisis were the f ollowing (Corsetti *et al*., 1998):

- Foreign investors expecting super-profits caused equity market to "overheat". The capitalization of equity market amounted to 259% in Singapore, 452% in Malaysia and 631% in Hong Kong. The expectations raised had not been satisfied in a prospect and mass sell-off of shares began which resulted in large-scale exchange of local currencies to hard currencies, i.e., devaluation of NIC countrie's currencies
- Irrational economic and financial structure and the absence of necessary mechanisms to function and control processes
- Corruption and the merging of economical and political powers
- Business practices in equity market allowing mass speculations
- Backwardness in science and high technologies, utilization of the production methods and equipment obsolete in the developed countries

The world financial crisis in 1997-1998 became a global one after a set of local financial cataclysms in Indonesia, Malaysia and Thailand. The crises in Asian countries were followed by the collapse of national currencies hard pegged to US dollar rate, the fall of real estate prices, sharp withdrawal of currency assets from the commerce banks of this region and rapid decrease in stocks of corporations and government. Subsequent to Indonesia, Malaysia and Thailand crisis involved Hong Kong and South Korea. Singapore was the only country in this region that managed to escape severe devaluation of national currency, for this country had conducted planned devaluation gradually in 1997-2000. China did not suffer as well due to its closed economy and rejection from entrance in world equity market.

The crisis in 1997 resulted in the former non-critical enthusiastic attitude towards new industrial countries to change for skepticism for a few years. They began to argue that "the miracle" was a result of the unique but a short-term combination of historical circumstances: a favorable international situation, the possibility to adopt the technologies developed elsewhere, the low cost and abundance of labor. However, there was the same combination of favorable conditions in the other regions of the planet and no "economical miracle" arose.

Moreover, Asian NIC demonstrated the capability to regenerate the economy rapidly. These countries had assumed a number of anti-crisis measures, namely reorganization of financial system, promotion of science and education, fight against corruption and bureaucracy, support of small and medium business, development of intellectual sectors, Internet inclusive as well as change of a number of governments. Thailand, Philippines and Korean Republic suffered from crisis to the utmost extent, as the companies of those very countries had been selling their stocks in the open market actively. However, the crisis involved basically financial sector. After the devaluation of national currencies and anti-crisis measures adopted, since, 2000 the real GDP is growing there (but not so fast as prior to crisis). There is an export boom, equity markets are under restoration, gold and currency reserves increase. Currency exchange rates relative to US dollar are growing as well. Recent times SEA countries experience a sustained increase in demand for raw materials, industrial metals among them.

Meanwhile, the crisis has depicted the weak sides of “Asian model” and put out the requirement of regional economy integration of EU type with a unified currency as an option. Otherwise, the countries of East and Southeast Asia are condemned for a permanent backwardness while mass replicating worked-out technologies. Now a days the worst situation is in Indonesia which even prior to crisis was not only the most corrupted but the poorest country of all “new industrial countries” in SEA. The economy crisis caused a political one in Indonesia. The conditions in Malaysia and Thailand are a little better (HO and Yeh, 2014).

There is an opinion that the financial crisis in SEA countries was not only predictable in advance but artificially stimulated by large global financial institutions being the researchers of “foreign economic diversion perfectly performed and directed to grab national property from “Asian tigers”. According this point of view, the countries of this group had developed economies based not on the achievements of real economy and its aggregated productivity but on unstoppable foreign capital inflow (opposite to South Korea, economy thereof being developed in the tideway of national saving, financial protectionism and tight merging of the state with industrial giants). It’s sufficient to mention, that in the beginning of 1997 Kuala Lumpur Stock Exchange in Malaysia was the most dynamic stock exchange in the world with transactions exceeding even that of New York Stock Exchange (afterwards, in the period from July to December 1997, the composite index of Kuala Lumpur Stock Exchange fell by 75%).

CONCLUSION

Furthermore, the whole economy of SEA countries was entirely oriented to the demand of American internal market while welfare of foreign investors was based not on a high credit interest but on a risk hedging by means of local currency being hard pegged to US dollar. This induced a proportional grow of interest rate that was increasing prime cost of production.

In the beginning of 1997 a group of financial institutions (George Soros’s Quantum Group of Funds, Julian Robertson’s Tiger Management Corp., etc.) consummated a large number of forward currency contracts with a year’s expiration for a total amount of 15 bln. $. It was supposed, that in a year Thai bat would be cheaper and forward obligations could be satisfied for a share of loan initially gained. Forward currency contracts were very popular that promoted interest rate growth.

In the middle of May Thai Central Bank suddenly stopped the emission of forwards and hundreds of sales calls for bat flooded the currency market. Central Bank was trying to maintain the former rate (25 bats per dollar) and spent 10 bln. $ in order to do so, however at the 2nd of July bat had fallen and in January 1998, 1$ was worth of 56 bats in stock exchange (Lee *et al*., 2005). The situation in Philippines, Malaysia and Indonesia developed according to a scenario similar to that in Thailand. Furthermore, Indonesia strictly adhering to the recommendations of IMF and World Bank found itself basically in the worst condition. Just two countries managed to resist the attack of conquistadors successfully, namely Hong Kong and South Korea. South Korea managed to survive due to a health macrostructure of national economy only that was oriented not to financial speculations but to effective production securing capital inflow.

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