

**LESSONS FROM THE CRISIS: DANGERS
AND OPPORTUNITIES IN THE ASIAN
FINANCIAL CRISIS**

Thesis submitted for the degree of
Doctor of Philosophy
at the University of Leicester

Yan Li

School of Management

University of Leicester

November 2011

Abstract

LESSONS FROM THE CRISIS: DANGERS AND OPPORTUNITIES IN THE ASIAN FINANCIAL CRISIS

Yan Li

This study generates an overview of the 1997 Asian financial crisis, from its causes to the consequences. At the same time, it examines the context of the crisis, which includes the review of historical Asian development and the role of the International Monetary Fund (IMF) in the financial crisis. Particular attention is given to the crisis' impact on the local economy and people. In this it differs from existing research that analyses the impact on its own, this study links the crisis' impact to the foreign direct investment (FDI). The impact of the crisis, therefore, is reflected by examining the control power of the FDI money.

It examines the crisis' impact through focusing on a unique angle of the two elements in the crisis – danger and opportunity. The results show that the social impact of the crisis put local people in danger of unemployment, underemployment, falling real wages and growing social inequality and lowered land and commodity prices, which dramatically reduced the cost of production. Accordingly, the control power of the FDI money increased extensively in the crisis, which represents the increasing danger of unfair exploitation of local labour and enclosure of land and resources which can be seen as opportunities beneficial to the international capitalists.

Acknowledgements

This thesis was made possible by the support and guidance of my supervisors Dr David Harvie and Dr Geoffrey Lightfoot of University of Leicester. I am extremely grateful for their help.

I would like to acknowledge the academic and technical support of the School of Management, University of Leicester, and its staff. During my PhD years at the University of Leicester, I have received enormous help, which is indispensable.

I would like to thank my wife Xianhe Jiang for her support and great patience at all times. My parents have given me their incredible support and motivation throughout, as always, for which my mere expression of thanks likewise does not suffice.

List of Contents

Abstract	i
Acknowledgements	ii
List of Figures	vii
List of Tables	ix
Chapter 1 Introduction	1
1.1 Purpose of the research.....	7
1.2 Methodology	11
1.3 Review of the chapters	15
Chapter 2 The Asian miracle.....	19
2.1 Introduction	19
2.2 Industrialization in East Asia.....	21
2.3 Explaining the “miracle” – theories and debates.....	26
Asian “miracle” in the neoliberal explanation.....	33
More inputs for more outputs	35
Export-oriented development and liberalization	37
State vs. market – the World Bank’s market-friendly approach.....	46
Asian “miracle” in the developmental-state explanation	54
2.4 Conclusion.....	61

Chapter 3	Causes of the crisis	64
3.1	Introduction	64
3.2	The crisis and the Asian development model	65
	Fragility in banking sector.....	66
	Vulnerability in corporate sector	83
	Corporate governance.....	90
3.3	Liberalization, financial panics and the crisis	108
	Capital flows and panics.....	119
3.4	Conclusion.....	130
Chapter 4	The IMF and its role in the Asian financial crisis	132
4.1	Introduction	132
4.2	The role of IMF in the financial crisis.....	135
4.3	The IMF remedy in the Asian crisis	139
	Contractionary fiscal and monetary policy.....	141
	High interest rate	144
	Market confidence	148
4.4	M&A and increasing foreign ownership	153
4.5	Conclusion.....	156
Chapter 5	FDI and the crisis I: commodity effect.....	160
5.1	Introduction	160

5.2 The nature of FDI flows to Asia	167
5.3 Currency devaluation effects	171
5.4 The commodity sector	173
5.5 The land	185
5.6 M&A as a form of FDI	189
5.7 Conclusion.....	212
Chapter 6 FDI and the crisis II: the labour effect.....	215
6.1 Introduction	215
6.2 The social effects of the crisis	218
Employment, unemployment and underemployment.....	218
Wage, Income distribution & poverty	246
6.3 FDI and Asian labour	259
FDI, wage and employment	259
FDI and Labour control.....	264
The Foxconn case – focusing on working hours	269
6.4 Conclusion.....	275
Chapter 7 FDI and the crisis III: reconceptualizing FDI.....	277
7.1 Introduction	277
7.2 Literature review	278
FDI and economic growth.....	278

FDI in the Asian crisis	281
Issues of foreign direct investment in Asia	282
7.3 The value of money	285
Labour commanded	287
Purchasing power	289
7.4 Re-conceptualizing FDI in Asian crisis.....	291
7.5 Methodology	293
Data	297
7.6 Results and interpretation	298
Labour-commanded FDI	298
Commodity FDI	304
Land FDI	305
7.7 Conclusion.....	312
7.8 Appendix	313
Hourly labour cost.....	313
Land price.....	314
Chapter 8 Conclusion.....	316
8.1 Lessons from the Asian crisis	316
8.2 Asian economies after the crisis	322
References:	325

List of Figures

Figure 2.1 Gross domestic savings among country groups.....	32
Figure 2.2 Export expansion in crisis-affected countries	43
Figure 2.3 Share of inward FDI flows to all developing countries	45
Figure 3.1 Commercial bank credits classified by type of business in Thailand	71
Figure 3.2 Stock prices in Thailand, South Korea and Indonesia	76
Figure 3.3 Land prices in Thailand and South Korea.....	77
Figure 3.4 Ownership concentration	96
Figure 3.5 Net private capital flows of the crisis-affected countries.....	121
Figure 3.6 Net private capital flows of Indonesia, South Korea and Thailand	122
Figure 3.7 Net financial accounts.....	123
Figure 4.1 IMF policy, lending interest rate and exchange rate in Korea	146
Figure 4.2 IMF policy, lending interest rate and exchange rate in Thailand.....	147
Figure 5.1 FDI inflows to developing Asia	162
Figure 5.2 Main recipient of FDI inflows to Asia	163
Figure 5.3 Real GDP growth rate	164
Figure 5.4 Net capital flows by types in crisis-affected countries	165
Figure 5.5 FDI inflows to Korea, Thailand and Malaysia.....	166
Figure 5.6 Monthly local currency exchange rates	175
Figure 5.7 FDI inflows to Thailand in US\$ and local currency unit.....	176
Figure 5.8 FDI inflows to Korea in US\$ and local currency unit	177
Figure 5.9 Annual growth of manufacturing production.....	182

Figure 5.10 Consumer price index	183
Figure 5.11 Prices of selected commodities in Korea	184
Figure 5.12 Land price and growth rate in Korea	187
Figure 5.13 Land price and growth rate in Thailand	188
Figure 5.14 Cross-border M&As and FDI in the five crisis-affected countries	190
Figure 5.15 Net sales of cross-border M&As in the five crisis-affected countries	198
Figure 5.16 Sales and purchases in M&A deals for Korea and Thailand.....	206
Figure 6.1 Employment by types of labour in Korea	235
Figure 6.2 Hourly labour cost in manufacturing	244
Figure 6.3 Unemployment and poverty rate of urban workers' households in Korea	245
Figure 7.1 Labour-commanded FDI inflows in Korea.....	299
Figure 7.2 Labour-commanded FDI inflows in Thailand	300
Figure 7.3 Commodity FDI in Korea	301
Figure 7.4 Land FDI.....	306
Figure 7.5 Land FDI as a % of total land area.....	307

List of Tables

Table 2.1 Annual growth of production.....	23
Table 2.2 Distribution of employment.....	23
Table 2.3 Distribution of GDP.....	24
Table 2.4 Structural change in manufacturing.....	24
Table 2.5 The “Flying-geese pattern”.....	32
Table 2.6 Structure of merchandize exports.....	44
Table 2.7 Total net external resources flows.....	44
Table 3.1 Growth of bank lending.....	70
Table 3.2 BIS data on nonperforming loans.....	78
Table 3.3 Investment banks data on nonperforming loans.....	78
Table 3.4 Average debt-equity ratios in the manufacturing sector.....	85
Table 3.5 Annual export growth.....	89
Table 3.6 Short-term external debts as a % of foreign exchange reserves.....	113
Table 5.1 Industrial production and GDP in Asian crisis and the Great Depression.....	165
Table 5.2 Change in industrial production.....	178
Table 5.3 Prices for selected energy and raw materials.....	178
Table 5.4 Land prices in prime areas in Asia.....	187
Table 5.5 Motives for M&A.....	196
Table 5.6 Cross-border M&A sales in the five crisis-affected countries.....	200
Table 6.1 Unemployment rate in the five crisis-affected countries.....	219
Table 6.2 Characteristics of the unemployment in Indonesia.....	221

Table 6.3 Job losses and absorption among sectors in Indonesia.....	222
Table 6.4 Characteristics of the unemployment in Korea	223
Table 6.5 Characteristics of the unemployment in Thailand.....	227
Table 6.6 Employment by sectors in Korea.....	228
Table 6.7 Employment by sectors in Thailand	228
Table 6.8 Sectoral employment in Thailand.....	229
Table 6.9 Sectoral employment in Korea	233
Table 6.10 Employment by status in Korea.....	234
Table 6.11 Employment distribution by hours worked per week in Korea.....	234
Table 6.12 Employment by status and hours worked per week in Thailand.....	241
Table 6.13 Nominal monthly wage in Korea.....	242
Table 6.14 Nominal monthly wage by sectors in Thailand	243
Table 6.15 Nominal and real monthly wage in Thai manufacturing.....	243
Table 6.16 Annual income and expenditure of urban workers' households in Korea	251
Table 6.17 Incidence of poverty in Thailand.....	256
Table 6.18 Ultra poor, marginal poor and near poor in Thailand	256
Table 6.19 Job seekers in Korea	256
Table 6.20 Job seekers in Thailand.....	257
Table 6.21 Potential effects of inward FDI on employment.....	257

Chapter 1 Introduction

In 2005, I started my postgraduate study. I was taught the fundamentals of the global financial system and political economy. For one of the class modules, I was assigned to write a report about the 1997 Asian financial crisis. Writing the report recalled my memory to when I was in China at the time of the crisis. I heard people on the street talking about the neighbouring countries' tragedy and being cheerful that China was not a part of it. I heard people arguing that the crisis was a U.S. conspiracy aiming to destroy the fast growing Asian economies who were seen as a "threat" to the U.S. as the largest and most powerful economy in the world. I heard people worrying about the dangers of the crisis and globalization – the Western invasion into the Asian economy and local workers are given more pitiful wages, and believe the government will handle it. My father thought the crisis was inevitable – "the crisis was a necessary step towards a better future, we, as developing countries, have no choice but to take it", he said.

I was in junior high school at that time and was not quite sure of what all this meant, as financial crises seemed to be far removed from my life. I was, however, puzzled by many questions such as what a financial crisis is? Why had it happened to our neighbours? What the consequences were? But it was "water under the bridge" because I did not think it was something especially serious, until after a discussion with a Korean friend. In preparing for my assignment, I discussed the crisis with my friend: "Imagine this: both you and your wife lost your job as the company is bankrupted and your family has lost source of income ... rumours and panic are circling around about inflation and more

bankruptcies ... people rush to withdraw money from banks ... desperate people jump out buildings to end their lives... there was no hope for life”, said my friend. I was shocked because I never thought the crisis resulted in a situation terrible enough for wage workers to kill themselves¹, leading South Korea to have “one of the highest suicide rates among developed countries” (Bello, 2007).

Entering the academy gave me a chance to rethink all these problems. I started my research from the very beginning. I learned that not long before the crisis, East Asian economies were generally considered the world’s most economically dynamic region among the few developing countries that have overcome underdevelopment. In 1993, the World Bank undertook a study of the strong Asian economic growth in the second half of the twentieth century and published a report under the title “The East Asian Miracle: Economic Growth and Public Policy”. Since then, the unprecedented and pervasively high rate of growth all over the East Asian countries started in the 1950s was encapsulated in the popular term of “East Asian miracle” (World Bank, 1993).

Then the crisis suddenly reversed the growing trend in almost all Southeast and East Asian countries. It first erupted in Thailand in July 1997, and soon spread to other East

¹ According to the Korea Times newspaper, the suicide rate in Korea was 13 of every 100,000 people in 1997 and has been an ongoing trend since the late 1990s because of economic and health problems, leading the number of suicides in Korea doubled over the decade of 2010 to reach the highest suicide rate in the world. Source: http://www.koreatimes.co.kr/www/news/biz/2009/10/123_30829.html; http://www.koreatimes.co.kr/www/news/biz/2010/09/123_72820.html

Chang et al. (2009) shows that the impact of economic crisis was closely associated with suicides in Korea and the changes in unemployment rates were most closely associated with the rises in suicide after the Asian economic crisis.

and Southeast Asian countries, namely, Indonesia, Malaysia, and the Philippines. By October that year the crisis had spread to Korea and Hong Kong, resulting in a severe regional economic shock. In economic terms, the crisis-hit countries suffered tumbling asset prices and exchange rates. Asian countries soon started to suffer more serious economic crises and struggled against plunging GDP and economic recession (IMF, 1997; World Bank, 1998: 1999a; Goldstein, 1998).

Apart from the economic effects, I am, however, more surprised by the enormous effects of the crisis on people's lives. I am shocked by the violent demonstrations by the local workers and chaos on the streets in Southeast Asian countries and by Korea's top suicide rate among OECD countries in the crisis². I am particularly concerned about the local wage labour. Most people growing up in China, at my age, can tell a story about poor working conditions in foreign owned or joint venture companies. As I was writing this thesis, six Chinese university students performed an under-cover investigation and interviewed more than 100 workers in five Chinese contractor factories that produce toys and stationeries for Disney and wrote a report titled "Mickey Mouse is no longer cute", revealing terrible working conditions in these factories (Shanghaiist, 2009). My experience in China made me particularly worried about labour in other Southeast and East Asian countries in the crisis, because I know we had similar experiences in attracting foreign investment and adopting an export-oriented industrialization strategy (UNCTAD, 1993; 1994; World Bank, 1993; OECD, 2002). Just like China – the "world factory"

² An average 24.3 people per 100,000 die from suicide in Korea in 2008, the highest suicide rate among OECD countries. Source: <http://joongangdaily.joins.com/article/view.asp?aid=2918314>

(Zhang, 2006), many Asian countries also provide assembly lines for Western products (Naomi, 2000). While foreign capital plays an important role in Asia's industrialization in history, it brings the problems of labour exploitation including low wages, poor working conditions and inadequate health care (Henderson, 1989: 74; Fröbel et al., 1980: 350-364).

The labour exploitation frequently involved violent resistance in East Asia. McNally (1998: 148) notes the labour movement in Asia stimulated the emergence of new, independent unions and labour federation. New federations of independent unions emerged in Taiwan, South Korea, Bangladesh and Indonesia to resist the collaborationism of the older, state-tolerated unions. Berger (1997: 185) finds that from 1965 until the 1980s the number of strikes was relatively low but continuously rising in Indonesia. Until the late 1970s, it never rose above 35 annually and was often much lower. But in 1979 the figure rose to 72, and then to over 100 a year in 1980 and 1981, and over 200 in 1982. By 1990 the number of strikes per year had reached pre-1965 levels and these strikes were centred on export-oriented manufacturing industries with large MNCs presents which produce garments, textiles and footwear.

Workers' movement came more frequently during the 1997 financial crisis to fight against poverty, layoffs and the dictates of the International Monetary Fund (IMF), especially in the three worst-hit countries including the Indonesia, South Korea and Thailand. In July 1995, the Indonesian Centre for Labour Struggle (PBBI) led a 13,000-strong strike of garment workers in Bogor. In July 1997, the PBBI organized community protest movement of 20,000 in Surabaya. In October 1997, when the financial crisis led

to rumours of IMF-dictated layoffs, the PBBBI organize a protest of 16,000 workers in Bandung. On 3rd May 1998, more than 300 factory workers in Jakarta joined the student demonstration. On 8th June 1998, 50,000 workers in Maspion Corporation in Surabaya launched the largest protest since the fall of Suharto, with more than 10,000 workers clashed with police (McNally, 1998: 149).

In Korea, more working-class resistance occurred against the IMF dictation. A massive strike led by KCTU occurred in January 1997, involving 630,000 workers to protest new labour law that aims to make mass layoffs possible. Worker protests led by the Korean Confederation of Trade Unions (KCTU) forced the government to negotiate an agreement, when the IMF insisted mass layoffs in exchange for its 57 billion US dollar rescue package. However, the leaders of the KCTU accepted mass layoffs and all the basic terms of the IMF restructuring program. As a result, 120,000 Angry KCTU members organized a large strike against layoffs on 27th May 1998 (McNally, 1998: 150-151).

In Thailand, Ungpakorn (1999: 11) notes workers responded to the unemployment and cutting wages in various ways during the crisis. The less violent way, as in the case of Thai American Textiles and Dynamic Toys Group, is an organized campaign where workers set up camps outside the factory and waited to negotiate with the boss. If this failed, they walked to Government House or the Ministry of Labour and camped there instead, waiting for a response from the government. The more radical activities include setting fire to the Sanyo factory and blocking a main highway at Thai Summit Auto Parts. Another radical way of struggling is to occupy factories. In February 1998 workers at

Century Textile company occupied their factories in order to fight a reduction in bonus payments and other benefits. They sat down outside the main entrance at the company headquarter and sang songs for life, which contained the phrase “the capitalists have long arms, they just keep pulling in the profits” (Ungpakorn, 1999: 66).

While the working class and the poor throughout East Asia are battling against international capital and its agencies such as IMF and the World Bank, Wolf (2005: 171) argues that foreign investment, which offers an opportunity for labours in developing countries to involve in international production chain, can increase the welfare of the labour. He claims that: “The problem of the poorest is not that they are exploited, but that they are almost entirely unexploited: they live outside the world economy. The soaring growth of the rapidly integrating developing economies has transformed the world for the better. The challenge is to bring those who have failed so far into the new web of productive and profitable economic relations.” For Wolf, what is more important for the labour in developing countries is to become wage labour to get involved in the global production chain, even being exploited, as it will still increase their welfare.

As McNally (1998: 143) points out, in much of the world, the best model of globalization is Asia. Most parts of Asia have been more systematically incorporated into the global circuits of capital³. Or in line with the argument of Martin Wolf, the Asian people have

³ Asia’s quick integration in world trade in the second half of the twentieth century has been noted by various World Bank and United Nations reports. For example, the World Bank (1993: 38) shows between 1966 and 1990 the share in world exports for seven East Asian economies (South Korea, Hong Kong, Singapore, Taiwan, Indonesia, Malaysia and Thailand) increased from 7.9 to 18.2 per cent, while that of the developing countries as a whole down from 24.2 to 19.8 per cent. The Asian region was the largest

got involved in the global capitalism. However, with all signs of working-class resistance to privatization, liberalization, unemployment and poverty, East Asia has become the focal-point of the international class struggle. The old “Asian miracle” has become a new Asian model of working-class resistance to capitalist globalization.

1.1 Purpose of the research

The purpose of this research is to generate an overview of the Asian financial crisis, from its causes to the consequences, with a stress on the crisis’s impacts on local economy and workers. It examines these questions through focusing on a unique angle of the two elements in the crisis – danger and opportunity.

Some observers found that the two Chinese characters for the word “crisis” – “*wei ji*” that literally mean “danger” (*wei*) and “opportunity” (*ji*) and point to these two elements in the Asian crisis (Henderson, 1998: 191). Victor H. Mair argues the word *ji* does not mean “opportunity” in this context, rather an “incipient moment; crucial point (when something begins or changes)” (quoted in Swaine, 2006: 3). The single Chinese character usually is not sufficient to provide a true meaning and it is often the combination of two or a few characters that do, as *ji* can also mean “mechanism” in the word “*ji qi*”, which literally means “machine”.

However, the Chinese character for the word “crisis” draws my attention that a crisis can

developing-country FDI recipient and investor in 1995, accounting for 65 per cent of total developing-country FDI inflows and for 90 per cent of all developing-country outflows (UNCTAD, 1996: 52).

carry two elements – danger and opportunity. Swaine (2006: 3) also notes that Chinese analysts often recognize that a crisis can – under some circumstances – present both a threat and an opportunity. As in the Chinese saying:

Opportunity is always present in the midst of crisis. Every crisis carries two elements, danger and opportunity. No matter the difficulty of the circumstances, no matter how dangerous the situation ... At the heart of each crisis lies a tremendous opportunity. Great blessings lie ahead for the one who knows the secret of finding the opportunity within each crisis (quoted in Kelly, 2004: vii).

In determining and evaluating the dangers and opportunities of the Asian crisis, this study focuses on two groups of people – the local wage labours and the international capitalist class, to examine their benefits and losses in the crisis. As Marx (1887) claims, wage labourers are not natural beings and they have to be created. The way that wage labourers are created is through forcefully driving people out of existing subsistence that depends on the commons (the land, water, air) so they have to look for a miserable wage. Karl Marx (1887) told a story about the history of enclosure movement in the English countryside, where farmers were expropriated from their common land by the state and landlords and were turned into beggars, and later into wage workers who is called the proletariat. The land was used to produce the agricultural commodities for international market. Marx described this process of “enclosure movement” as “primitive accumulation” that marks the starting point of capitalist society.

Midnight Notes Collective (1990; 2004) claims this “Old Enclosure” is not a onetime thing as the capital always expands appropriation of new resources and new labour power. Today the “New Enclosure” of the commons continues with the global extension

of capitalist relations as the “capital is ever watchful to enclose any new commons that might be constituted by workers ... the structural adjustment plans imposed by the World Bank and International Monetary Fund (IMF) are substantially designed to eliminate all forms of shared subsistence, from the right to the land, to food subsidize, to public schooling and health care” (Midnight Notes Collective, 2004: 63).

The financial crisis and crisis-related reform and the IMF restructuring led a new wave of the “new enclosures” and the “primitive accumulation” in Asia, by destroying the commons through privatization and commercialization of public services and basic resources such as land and water, by preventing dispossessed people from finding alternatives to exploitative wage work, and by affecting the living standard of wage workers through massive layoffs and wage cut. The commodification of people and land was and still is a component of what Marx called “primitive accumulation”. Marx (1887) famously insisted that “conquest, enslavement, robbery, murder, in sum, force” is critical and often hidden components of both the primitive accumulation process and on-going forms of accumulation and state power. Violence, whether structural or brute force, is what enables the creation of a subject population “free” to work as wage labours for commodity producers. The labour effects of the crisis will be unfolded in the following research. The crisis raises great danger of enclosures which involves extensive seizures of land and resources and exploitation of people.

Meanwhile, the crisis can also be seen as an opportunity for the transnational capitalist class to change local production norms, ideologies, and practices to comply with the globalization of capitalism. Indeed, Marx and Engels (1967 [1848]: 83) not only point out

the necessity for capitalist class to change the relations of the social class, but also provided the classic description of the bourgeoisie's globalizing mission without explicitly defining a transnational capitalist class as:

[The] bourgeoisie cannot exist without constantly revolutionising the instruments of production, and thereby the relations of production, and with them the whole relations of society ... The need of a constantly expanding market for its products chases the bourgeoisie over the entire surface of the globe. It must nestle everywhere, settle everywhere, establish connexions everywhere.

As the capitalist mode of production globalizes and the circulation of capital crosses national borders, the relations of production and the forces of production also globalize.

In the early 1970s, Hymer (1979: 262) notes:

[A]n international capitalist class is emerging whose interests lie in the world economy as a whole and a system of inter-national private property which allows free movement of capital between countries . . . there is a strong tendency for the most powerful segments of the capitalist class increasingly to see their future in the further growth of the world market rather than its curtailment.

Sklair (2001: 17) divides the transnational capitalist class into four fractions – the executives of transnational corporations, the “globalizing bureaucrats and politicians”, the “globalizing professionals”, and the “consumerist elites” in the media and commercial sector. Together, these groups constitute a global power elite and ruling class that “seeks to exert economic control in the workplace, political control in domestic and international politics, and culture-ideology control in every-day life through specific forms of global competitive and consumerist rhetoric and practice” Sklair (2001: 19) and “used the

discourses of national competitiveness and sustainable development to further the interests of global capital” (Sklair, 2000: 67).

In the case of the East Asian crisis, attempts to restructure a society by the transnational capitalist class have led to “a domestic hegemonic struggle” (Moore, 2007: 120). In Korea the crisis-related reforms and restructurings was “elite-led and transnationally motivated” and Korean elite has constructed a reformist strategy to secure control over a potential revolutionary worker movement against IMF and transnationally-led development and promote the reform of work practices, aiming to lead adoption of globally standardized norms of capitalist production (Moore, 2007: 121-122).

The neoliberal restructuring following the crisis not only increased Asia’s incorporation into the expansive network of capitalist norms, but also brought investment opportunities to the capitalist class. The IMF required the East Asian economies to invite a fresh wave of FDI, which was expected to mend corporate instabilities and debts that had partly “caused” the crisis. As a result, barriers to foreign investment were removed and even hostile take-overs were permitted. Investment and mergers and acquisitions were welcomed with the logic that foreigners’ investment would be an excellent source of capital to repair the crisis-hit economies (Goldstein, 1998; Dixon, 2004; ADB, 2001). However, what this meant in practice was a widespread termination of several banks and business bankruptcies, and a significant impact on thousands of workers’ lives.

1.2 Methodology

This research adopts a quantitative deductive research strategy. Through my reading of

the relevant books, journals and documents, I feel that there are some arguments that are inaccurate and contrary to my experiences and beliefs about the crisis. Therefore, this research tries to examine the dangers and opportunities through theory testing, that is, the propositions are regarded as being tentative and the conclusion is what has to be tested against some quantitative data.

Known also as the hypothetico-deductive method, or falsificationism, the deductive strategy was developed by Karl Popper, the founding father of the philosophy of science known as “Critical Rationalism” (Blaikie, 2000: 104). The hypothetico-deductive method is commonly referred to as the “scientific method” (Walliman, 2006: 18), which is an important empirical theory verification method for various scientific disciplines (Elster, 1983: 15). The hypothetico-deductive method combines inductive and deductive reasoning (Walliman, 2006: 18). While the logic of inductive research is to produce generalizations based on observations and investigation, the deductive research works in a reversal way. It tries to refute and falsify the theories and hypothesis, aiming to test the theory by deducing one or more hypotheses from it and then collecting the appropriate data to test if they support the theory (Blaikie, 1993: 144; Bryman, 2008: 9).

Blaikie (2000: 105) further explains that in deductive approaches to generating new knowledge, “data are used in the service of deductive reasoning, and theories are invented to account for observation, not derived from them. Rather than scientists waiting for the social world to reveal its regularities, they must impose theories on the world and, by a process of trial and error, use data to try to reject false theories.” As Bryman (2008: 11) argues, theories need to be tested before they can be considered valid or useful.

Nevertheless, Blaikie (2000: 105) points out that in deductive research, theories that survive the critical process are provisionally accepted, but never proven to be true and all knowledge is tentative and subject to on-going critical evaluation. The hypothetical-deductive method, according to its developer – Karl Popper (1960: 131), “does not achieve absolute certainty for any of the scientific statements which it tests; rather, these statements always retain the character of tentative hypotheses, even though their character of tentativeness may cease to be obvious after they have passed a great number of severe tests.”

The deductive method is not without its criticisms. In this approach, the propositions derived from mathematical systems are taken to be “axiom” without proof and these propositions are used to test theories. But Pawson (1989: 87) argues the axiomatization of mathematical system is not completed, so the mathematical proof does not coincide impeccably with the doctrines of the axiomatic deductive approach and “there is an irreducible level of presupposition built into any mathematical system.” Moreover, Blaikie (1993: 150) argues the deductive method necessarily involves induction. Other criticisms include: “those concerned with the sources of the proposition that make up deductive theories; those concerned with practical aspects of making observations; those related to the theory-dependence of observations; and those associated with the fact that scientists are members of scientific communities” (Blaikie, 1993: 152).

In spite of these criticisms, the deductive approach has value in its logic that, for any theory to be regarded as scientific it must be possible, at least in principle, to falsify it and to use evidence to challenge it (Blaikie, 1993: 145). The sequence of the deductive

approach can be divided into four stages: first, identify the theories and hypothesis to be tested; secondly, gathering the data and do appropriate analysis in relation to the concepts of propositions; thirdly, relating the findings to propositions to check whether they are correct; fourth, if the data supports the hypothesis, then the hypothesis is confirmed. If not, then the hypothesis is disconfirmed (Blaikie, 2000: 106; Bryman, 2008: 10). In the deductive research, data is used to test the answers to see if the data matches the theory. Therefore, the deductive approach is usually associated with quantitative research (Bryman, 2008: 10). Similarly, Punch (2005: 235) points out that quantitative research is more concerned with the deductive testing of hypotheses and theories, whereas qualitative research is more concerned with exploring a topic, and with inductively generating hypotheses and theories.

When quantitative methods and tests of hypotheses are involved in a research, the hypothesis can be tested by operationalizing the concepts in the hypothesis, collecting the appropriate data, and then exploring the nature of the relationship between the measures of the concept by some form of statistical analysis, such as correlation or regression (Blaikie, 2000: 164). However, the methods of correlation or regression tests are often adopted to address a number of specific issues. This research, on the other hand, aims to generate an overall picture about the crisis. For this reason, descriptive statistics are employed. As noted by Agresti and Finlay (1997: 3), descriptive statistics are summary descriptions for presentation of statistical information and it helps to summarize basic characteristics of a sample.

In the discussion of historical Asian development in chapter 2, the data will mainly cover

the 40-year period from 1960-1990, quite a few years leading up to the crisis, with the assumption that the “East Asian Miracle” is a post-WWII phenomenon. Forty years is a reasonably long enough period to give evidence of a growth pattern and the initial condition of the crisis. In the discussion of the Asian financial crisis in 1997 specifically in the following chapters, data are more concentrated in the second half of 1990s.

In order to get the standardized data across the economies that allows a quantitative comparison and also to ensure an authoritative quality of data, I mainly use data available from major international organizations, primarily the International Monetary Fund (IMF), the World Bank, and the United Nations, including numbers of UN organizations, such as UN Development Program (UNDP), UN Industrial Development Organization (UNIDO) and UN Conference on Trade and Development (UNCTAD). In addition, national statistics from central banks have also been used for many indicators where necessary and appropriate. The data used and presented in this study are the most up-to-date, comprehensive at this time. While the official statistics offer social researchers obvious advantages, such as their high quality, ease to obtain and standardization, allowing for cross-country analysis, problems of official statistics also exist, such as the figures often fail to include comprehensive samples (Bryman, 2008: 304).

1.3 Review of the chapters

This research includes four major parts: the review of historical Asian development, the causes of the crisis, the role of the International Monetary Fund (IMF) in the financial crisis, and the consequences of the Asian crisis. The research begins with a historical review of economic development in East Asia and a re-examination of the “Asian

development model” in chapter 2. It examines the two rival economic theories of East Asian industrialization – the neoliberal and the developmental state. The major debate in the study of the East Asian newly industrializing countries (NICs) concerns whether state intervention was central to the NICs’ economic success – the debate of state versus the market. The neoliberal explanation for economic growth in East Asia emphasizes that state intervention in the NICs was lower than what was typical in developing countries and that a stable macroeconomic environment and an exports-oriented promotion of domestic and international competitiveness. The developmental state explanation, led by Alice Amsden and Robert Wade, focuses on the state’s positive intervention in the market, forming both national companies and the market itself in ways compatible with economic growth.

Chapter 3 provides an analytical discussion over the causes of the East Asian crisis. It also focuses on two rival explanations – the domestic weaknesses view vis-à-vis the international financial system view. The domestic weaknesses view holds that a number of domestic weaknesses lie in the “Asian development model”, including “crony capitalism”, moral hazard and the lack of transparency that constituted vulnerabilities in both the financial and corporate sectors, leading to a crisis. On the other hand, the international financial system view focuses on the volatility of international capital flows that have led to a liquidity problem in Asia, triggering the crisis.

Chapter 4 examines the role of the IMF in recent financial crises. It begins with a discussion of the history of the IMF and looks at the IMF’s program in a number of financial crises in the 1990s. The behaviour of the IMF in dealing with the financial crisis

incurs harsh criticisms, which is led by Joseph Stiglitz – former chief economist and vice president of the World Bank, and Professor Jeffery Sachs of Harvard University. According to them, the IMF was decidedly autocratic and paid no regard to the particulars and fundamentals of the country in crisis. In addition, it did not care about the alternatives, rather blindly pushing for market-based reforms before the proper social, legal and economic infrastructure was in place, which was needed for markets to work properly. Moreover, Stiglitz (2002) believes policymakers at the IMF were inherently biased towards the economic interests of the developed countries by which they were appointed. This chapter examines the IMF programme in the Asian crisis.

In chapter 5 and 6, the consequences of the East Asian crisis are examined in both economic and social aspects, in relation to the effects of large inflows of foreign direct investment (FDI) in the crisis time. These two chapters aim to lay down the foundations for exploring the implications of FDI money in chapter 7. Chapter 5 focuses on the economic consequences of the crisis, including the currency devaluation effects on the FDI, the drop in commodity and land prices, and the increase in merger and acquisitions (M&As) as a form of FDI. Chapter 6 turns to analysing the social consequences, including increasing unemployment, falling wages and rising poverty in the crisis countries. Moreover, it also examines the problem of labour exploitation by the FDI money.

Given the large crisis effects on the local economy and labour, chapter 7 focuses on examining the losses and opportunities in the crisis through examining the labour-commanded power and purchasing power of FDI. It argues that the crisis benefited the

international capitalists armed with US dollars through increasing control over local labours and assets, while putting a great burden on local economy and labour.

Chapter 8 concludes this research. The concluding remarks first outline the main points that emerged from the previous chapters, then examine the macroeconomic policies in the East and Southeast Asian economies after the crisis, and then suggest further theoretical and empirical investigations extended from this research.

The final point to make is, when I refer to East Asian countries, or East and Southeast Asian countries, or simply Asian countries in this thesis, I mean the five crisis-hit countries, namely, Indonesia, Korea, Malaysia, the Philippines, and Thailand, unless otherwise stated.

Chapter 2 The Asian miracle

2.1 Introduction

During the second half of the twentieth century, several East Asian countries got on the historical stage and gave an impressive economic performance which was a revolutionary turning-point in the region's social and economic history. These countries' uninterrupted high economic growth attracted the attention of governors, scholars and investors all over the world. There have been many detailed and critical appraisals in the economic literature for the East Asian growth, such as what contributed to it, and whether there are lessons that can be learned for other developing countries. In 1993, the World Bank undertook a comparative study of economic growth and public policy and published a report under the title "The East Asian Miracle: Economic Growth and Public Policy" (World Bank, 1993). From then on, the unprecedented and pervasively high rate of growth all over the East Asian countries started in the 1950s was encapsulated in the term of "East Asian miracle".

After decades of extensive growth, the several East Asian countries experienced a completely unexpected financial crisis in 1997. The same Asian economies that experienced high growth were suddenly put off the track of economic development and turned into severe recessions. This unique East Asia experience of a high growth period followed by a sudden economic turmoil is of great interest to many economists and offers valuable empirical evidence on the evolution of the economic development theories. While the main focus of the study is on the nature and the effects of East Asian financial

crisis, this chapter calls for a rethinking of the historical development in the region.

Since the onset of the Asian crisis, there are debates about the nature of the East Asian miracle. It is well-known that economic policy has long lag effects on economies. There are doubts that despite the impressive economic achievement, the East Asian model has its own inherent defects rooted in its development approach that will inevitably lead to a crisis. A particularly interesting point in explaining the long track of East Asian historical economic development is that scholars trying to explain both the economic “miracle” and turmoil are often found to contradict themselves, that is, the frequently recognized policies that contributed to the economic growth can end up being exactly the factors that contributed to the crisis. One clear example is regarding the role of government in the Asian economic development history – that “Those who put their faith in the market tend to downplay the role of government during the miracle period ... but they can, at times, elevate its role when it comes to the crisis of 1997” (Stiglitz, 2001: 517). Therefore, examining the causes of the crisis requires an inspection to the policies implemented prior the crisis.

Another reason to recall the historical economic development is that it offers a cultural, social and political “base” for the crisis to occur. The financial crisis did not happen on its own, in the sense that it is related to all these conditions. The occurrence of the crisis has raised doubts about the macroeconomic and industrial policy, institutional framework, business practice and regulatory and legal capability in East Asia, which calls for a reappraisal of the whole East Asian model and its underlying dynamics.

This chapter serves two purposes. First, it offers a comprehensive review on the theories explaining East Asian growth and tests these theories against empirical evidence. Secondly, it also reviews the policies implemented by Asian governments prior to the crisis to examine whether there were any domestic policies that were responsible for the crisis. This also lays down a foundation for the discussion over the causes of the crisis in the next chapter.

2.2 Industrialization in East Asia

The East Asian economies have traditionally been considered as large agricultural exporters. Throughout the process of industrialization in the second half of 1990s, the East Asian NICs experienced a great change in their economic structure. The industry and service sector showed strong dynamism in East Asian countries NICs after 1960 and East Asia became a new industrial centre in the world economy by 1980 (table 2.1).

The development of the industrial sector in the East Asian NICs in this research is measured by two indicators – the industrial employment within total employment and industrial value added in total gross domestic product (GDP). Table 2.2 shows the sectoral reallocation of employment in several East Asian economies since 1960s. The employment in the agricultural sector dropped dramatically in Korea, Malaysia, Singapore, Hong Kong and Japan, when one compares the 1960s to 1990s, with agricultural employment falling 73%, 57%, 99%, 88% and 79% respectively. The labour surplus in agriculture was absorbed by the industry and service sectors, with the average increase of the latter sectors among these countries exceed 93% and 67% respectively. The structure of employment over the 40 years demonstrates a clear view of the structural

change that the labour force was shifting from agriculture to industry and service sector in all the East Asian countries.

Another indicator of this industrialization process is the sectoral contribution to GDP (table 2.3). This indicator, too, shows that there had been substantial structural change in the East Asian economies. One can also observe the significant development shifting from the agriculture sector to the industry and service sectors in all the East Asian economies, the pattern detected earlier. The share of industry and service sectors increased quite substantially in all these economies. The manufacturing sector, within the industry sector, played an important role in the industrialization process and its share in total GDP increased dramatically (table 2.3). By the end of 1990, for all countries except Indonesia and Hong Kong, more than a quarter of their GDP came from their manufacturing sector. The rapid growth in manufacturing provided the impetus for structural change.

However, the extent of structural change varies depending on the base and initial conditions. Among the East Asian countries, Korea, Thailand, Indonesia, and Malaysia had a relatively large agriculture sector that contributed almost half of their GDP and a relatively small industrial base in the 1960s (table 2.3). Consequently, they experienced the greatest absolute changes of more than 50 per cent in the distribution of GDP among agriculture, industry and services between 1960 and 1990.

While all the East Asian economies experienced a declining agricultural sector and an expanding industry and service sector, Hong Kong and Japan, on the other hand,

Table 2.1 Average annual growth rate of production, %

	Agriculture			Industry			Service					
	1960-70	1970-80	1980-90	1960-70	1970-80	1980-90	1960-70	1970-80	1980-90			
Korea	4.4	3.2	2.8	2.1	17.2	15.4	12.2	7.5	8.9	8.5	9.2	7.8
Thailand	5.6	4.7	4.1	3.6	11.9	10	9	10.3	9.1	7.3	7.8	7.9
Indonesia	2.7	3.8	3.2	2.8	5.2	11.1	5.6	10.2	4.8	9.2	6.7	7.5
Malaysia	6.8	5.1	3.8	1.9	6.4	9.7	7.2	11.2	6.2	8.2	4.3	8.6
Singapore	5	1.8	-6.2	1.8	12.5	8.8	5.4	9.1	7.7	8.5	7.2	8.4
Philippines	4.3	4.9	1	1.9	6	8.7	-0.8	3.7	5.2	5.4	2.6	3.7
Developed Economies	1.4	1.4	1.5	0.8	5.9	3.1	2.1	2.6	4.8	3.5	3.1	2.2

Source: World Bank, World Development Report (various issues)

Table 2.2 Distribution of employment, %

	Agriculture			Industry			Service					
	1960	1970	1980	1960	1970	1980	1960	1970	1980			
Korea	66	51	34	18	9	13	29	35	25	36	44	48
Thailand	84	80	76	64	4	8	10	14	12	15	15	22
Indonesia	75	66	58	55	8	12	12	14	17	28	30	34
Malaysia	63	50	41	27	12	20	19	23	25	36	34	47
Singapore	8	3	2	0	23	22	42	36	69	74	59	65
Philippines	61	53	52	46	15	15	17	15	24	34	37	39
Hong Kong	8	4	3	1	52	35	57	37	40	41	40	64
Japan	33	20	12	7	30	37	39	34	37	45	49	59

Source: World Bank, World Development Report (various issues); ILO, LABOURSTA Labour Statistics Database

Table 2.3 Distribution of GDP, %

	Agriculture			Industry			(Manufacturing)			Service						
	1960	1970	1980	1960	1970	1980	1960	1970	1980	1960	1970	1980	1990			
Korea	38	30	16	9	18	26	37	42	11	18	24	27	53	45	47	50
Thailand	36	26	23	12	19	25	29	37	13	16	22	27	45	49	48	50
Indonesia	51	45	24	19	15	19	42	40	9	10	13	21	33	36	34	41
Malaysia	34	29	23	15	19	27	41	42	8	12	22	24	46	43	36	43
Philippines	26	30	25	22	28	32	39	34	20	25	26	25	47	47	39	44
Singapore	4	2	2	1	18	30	38	35	12	20	29	27	78	68	61	65
Hong Kong	4	2	1	1	39	36	31	24	26	29	23	17	57	62	68	75
Japan	13	6	4	3	45	47	41	42	34	36	29	29	42	47	55	56
Developing countries	-	25	21	18	-	33	38	37	-	24	26	23	-	41	41	46
Developed countries	6	4	4	3	40	39	37	32	30	29	27	22	54	58	62	65

Source: World Bank, World Development Report (various issues); World Development Indicators Online database

Table 2.4 Structural change in manufacturing reflected by shares in manufacturing value added, %

Product group	Korea			Philippines			Indonesia			Thailand			Malaysia		
	1963	1980	1990	1963	1980	1990	1975	1980	1990	1963	1980	1990	1968	1980	1990
1	31.6	16.6	10.7	39.5	30.3	38.9	41	24.6	25.3	57	34.3	23.5	26.7	23.9	13.2
2	20.2	19.5	11.9	9.71	12.8	10.7	17.8	10.7	13.5	6	19.9	24.3	3.2	7.34	6.47
3	11.9	6.17	6.49	11.2	10.7	6.51	7.37	7.75	14.3	9.39	7.74	5.64	18.6	16.6	11.9
4	21.4	26.2	23.2	15.6	27.6	24.4	20.2	41.2	24.5	19.4	17.6	24.4	27.5	24.3	28.1
5	14.9	31.5	47.7	16.8	18.6	19.5	13.7	15.8	22.4	8.2	20.4	22.1	14.2	27.8	40.4

Product groups: 1. Food products; Beverages; Tobacco products; 2. Textiles; Wearing apparel; Leather and fur products; Footwear; 3. Wood and wood products; Furniture and fixtures; Paper and paper products; Printing and publishing; 4. Industrial chemicals; Other chemical products; Petroleum refineries; Miscellaneous petroleum and coal products; Rubber products; Plastic products; Pottery, china and earthenware; Glass and glass products; Other non-metal mineral products; 5. Iron and steel; Non-ferrous metals; Fabricated Metal products; Non-electrical machinery; Electrical machinery; Transport equipment; Professional and scientific equipment; Other manufacturing industries

Source: UNIDO, 1982, 1997

displayed a somewhat different picture. Their shares of manufacturing value added (MVA) in GDP declined after 1960 (table 2.3). This is perhaps because they were relatively industrialized in the early 1960s as is evident from their high shares of industrial output in GDP in 1960. Therefore, they followed the same declining trend of manufacturing share in GDP and a slight increase in their service sectors, as observed in the developed countries.

Overall, the degree of industrialization in the East Asian countries is quite remarkable by the developing country standard (table 2.3). The shares of service in GDP in these countries stand well above the average share of service in developing countries as a group in the 1970s and 1980s. Through the whole period, the production structures of these economies became very similar to that of developed economies in 1990.

Along with industrialization, there have been significant structural changes within the manufacturing sector itself. All of the East Asian economies, in particular Korea and Singapore, have been moving away from labour-intensive simple production to more complex and skill-intensive technology-related production. The share of complex activities like iron and steel products, machinery and transport equipment in MVA went up while the importance of food, beverages and tobacco declined in all five East Asian economies (table 2.4).

This structural change is also depicted by an index produced by United Nation Industrial Development Organization. UNIDO (1985) calculated the index to measure the degree of correlation between the value added shares of sixteen manufacturing branches in 1965

and 1980. According to this index, Singapore, among other East Asian economies, experienced the greatest structural change during 1965-80, followed by Korea. The degree of structural change in East Asian economies is well above the average of the developing country group except Hong Kong, which is dominated by textiles and apparel production (OECD, 1988: 48). However, Chowdhury and Islam (1993: 92) note that the textile industry in Hong Kong itself has also undergone changes. It has continued to move towards to high-quality, high-value and fashion products.

2.3 Explaining the “miracle” – theories and debates

The East Asian economies’ great achievements were under the spotlight for over a half century. In relation to the successful Asian story, attentions have been focused especially on the four East Asian economies – South Korea, Taiwan, Hong Kong and Singapore. Several slogans have been used to describe their spectacular performance, such as “miracle economies”, “gang of four”, “four little tigers” and a more frequently used term is “newly industrializing countries” (NICs) (Chowdhury and Islam, 1993: 1).

The relevant analysis of East Asian development starts from what Japanese scholar Kaname Akamatsu (1962:11) calls a “wild-geese-flying” pattern. That is, according to OECD (2006: 13), the region’s “clustered, sequential development and neighbourhood effects linking economies at different levels of industrial development”. It shows clearly that Japan started its rapid growth period in the early 1950s and ended in the early 1970s; the “first-tier countries”, including South Korea, Taiwan, Hong Kong and Singapore started in the early 1960s and ended in early 1980s; the “second-tier countries” including Malaysia, Indonesia, Philippines and Thailand began rapid growth period from the 1970s

to 1990s; China's development comes a bit later, from the late 1980s and is still continuing (table 2.5).

The OECD report (2006: 23) argues that Asia's "sequential" industrialization process is reflected in two senses. First, the industrialization follows the process of upgrading from labour-intensive to capital intensive sectors, such as heavy industries and petrochemical, and finally to technology-intensive sectors such as machinery and electronics industry. Secondly, East Asian countries are following a similar industrialization pattern in a "sequential" way – after the first country upgraded their industry, another group follows. By focusing on the embedded conflict of capitalist social relations of production and the hidden value struggles in the "wild-geese-flying" industrialization, De Angelis (2007: 127) argues the FDI governed by shifting comparative advantage that changes the "community composition" in both leader and follower countries cannot eliminate conflict, but only creates the conditions for new forms of social conflict. He (2007: 128) also stresses that the precondition for shaping the production in the follower countries is a previous wave of enclosure that creates the large pool of cheap labour and the policies that making the poor a desirable wage.

Three approaches dominated the general account of East Asian economic growth – the market-centred, developmental state and culturist theories (Jessop, 2005: 22). The culturist view holds that Confucian culture, which emphasizes authority and obedience, hierarchical order and discipline, stresses on formal education and the priority of the collective over the individual, underlies the success of these economies (Peng, 1997). Peng (1997) believes the Confucianism alone has no strong influence on economic

development, but when it works with other fundamental factors like political and economic systems, as it always does, it does play a role in economic development.

Tipton (1998: 408) argues the success of government policy depends on the willingness of the people to accept and act on it, and the policies must have a responsive chord in their subjects. In the context of Asia, he believes the chord is Confucianism. Tu (1989: 70) points out that the “values people cherish or unconsciously uphold provide guidance for their actions”, particularly in the economic sphere, and Confucian “habits of the heart” is “pervasive” in the East Asian “Sinitic sphere”, including Korea, Japan, Vietnam, Singapore, China, Hong Kong and Taiwan, and “overseas” Chinese everywhere.

Peng (1997: 174) argues that Confucianism does not only help at the micro level, including an “affectionate” relationship between business and labour, diligence in work, frugality in life and emphasis on education, but also contributes to a strong and effective bureaucracy, which was able to carry out radical reforms, such as the economic transformation from import-substitution to export-orientation, which failed to be implemented in Latin American countries due to resistance from major interest groups. Moreover, Peng (1997: 176) points out that Confucianism also contributes to the close government-business relationship and the implementation of industrial policies, which is an important part of Asia’s success.

Nevertheless, some scholars note that Confucianism can act as an obstacle to the development of capitalism, modern sciences, technology and there was “no modernization nor Western-type capitalism until the last thirty or forty years” and in

Taiwan, “the economic miracle only started from the 1950s on” (Cheng, 1989: 24). Eto (1997:29) argues Japan’s success was based on sufficient human resources and the market mechanism and he does not believe Confucianism has helped the economic development in anyway, since Confucianism is by its nature not compatible with production development or modern market mechanisms. However, Tipton (1998: 409) is not convinced and he believes Confucian ethics can “open up” a way toward democracy and science, demonstrated by the “May Fourth Movement” in China, and also by the modern Chinese who have understood the modern life and the modern world.

For authors who support the idea that Confucianism helps economic development, there is always a problem – the Asian regions have been under Confucian influence for many centuries, but only modernized in the 20th century while other countries around the world which have no Confucianism modernized long before that. While Confucianism may have played a part in Asian economic development, it is certainly not the whole story.

Another interpretation has been proposed from a historical and geo-political perspective. It holds that the fast economic development in Asia, especially in Japan and the NICs who became the alliances of the US, have been based on the vital aid from, the US and other European countries. Western countries invested heavily and transferred technology and management know-how, opened domestic markets for their products, so that the economic developments in those countries have been greatly accelerated (Haggard, 1988: 265). However, this looks more likely to be a supplementary factor rather than a decisive factor for Asia’s extraordinarily high economic growth, as it is obviously impossible to achieve such economic success only with foreign aid alone while regardless of the

domestic policies. On the other hand, the NICs were only a little group among many countries helped by the West and other countries, such as Latin American countries that experienced intense financial crisis in the 1960s and 1970s. Given this, the following work looks at the domestic economic policies which could contribute to the economic success in Asia. The greatest divergence in explaining these economic factors are between the orthodox view that maintains the East Asian success was based on the improvement of “more market-oriented, less state intervention” and the free trade and liberalization, and the development state view that believes the strong government intervention and interference with the economic development contributed to Asia’s success.

According to an OECD (2006) report, East Asia’s growth experience is regarded as “still not well understood”. The core issue is the role of Asian government in economic development, in line with the old dichotomy “state versus market”. While the orthodox view believes the “engine of growth” for Asia was market mechanism and free trade, plus sound macroeconomic policies that “get the price right” (World Bank, 1993), the Asian states clearly did more than just facilitating the market mechanism, promoting trade and financial liberalization and implementing sound macroeconomic policies. There were clear state interventions in the economy, including government directions of the economic development through industrial policies, overwhelming government support for businesses, and state protectionism for infant industries through trade barriers and foreign exchange controls (see, for example, Chowdhury and Islam, 1993; Wade, 1990; Jomo, 2001).

The Asian countries' experiences are hard to explain in the sense that some of the elements in their development process are contrary to or challenge the mainstream theories and models in political science, development studies, economics and international relations. Moreover, Asia's development incorporated the traditional "Asian value" and the capitalist economic way of thinking and more importantly, the interchanges between them.

While the common similarity for the East Asian economies is that they all achieved high economic growth, Burgess and Connell (2007:1) argue these countries differ in many respects on the individual country's perspective. For example, while some countries have a relatively low GDP per capital (the Philippines, Malaysia, and Thailand), there are other countries with comparatively higher living standards (South Korea and Japan). There are countries competing to attract foreign investment (Taiwan, Singapore) while other others maintain a relatively closed economy (Indonesia, Malaysia). There are countries trying to move surplus labour from agriculture to manufacturing industry and from rural to urban area (China) whereas others had to adjust to rationalizing their service industries confronting the loss of manufacturing job in the International competition (Japan and South Korea). They conclude that the Asian experience is one of "heterogeneity and dissimilarity".

In seeking to explain the "myth" of Asian miracle, my preferred explanation turns on the critical distinction between the orthodox market friendly view and the development state view. This is because of the major divergence in their argument – the debate of "state versus market", which gives important implications in explaining the 1997 financial

Table 2.5 The “Flying-geese pattern” reflected by real GDP growth rate, %

	First-tier countries					Second-tier countries				
	Japan	Korea	Hong Kong	Taiwan	Singapore	Malaysia	Philippines	Indonesia	Thailand	China
1950-60	133.0%	70.8%	94.2%	126.7%	67.7%	28.6%	86.2%	46.3%	81.2%	87.0%
1960-70	170.2%	129.9%	134.0%	160.1%	142.2%	75.9%	61.7%	42.8%	111.8%	42.8%
1970-80	54.7%	149.0%	135.8%	140.8%	137.4%	121.9%	77.7%	99.0%	91.1%	63.3%
1980-90	48.0%	137.9%	87.6%	91.4%	98.2%	78.5%	18.2%	63.5%	112.9%	101.5%
1990-00	15.0%	81.7%	53.3%	83.9%	112.8%	91.0%	33.0%	49.8%	54.5%	105.3%

Note: Numbers in shadow indicating the fast development period of each country group.

Source: IMF, IFS statistics.

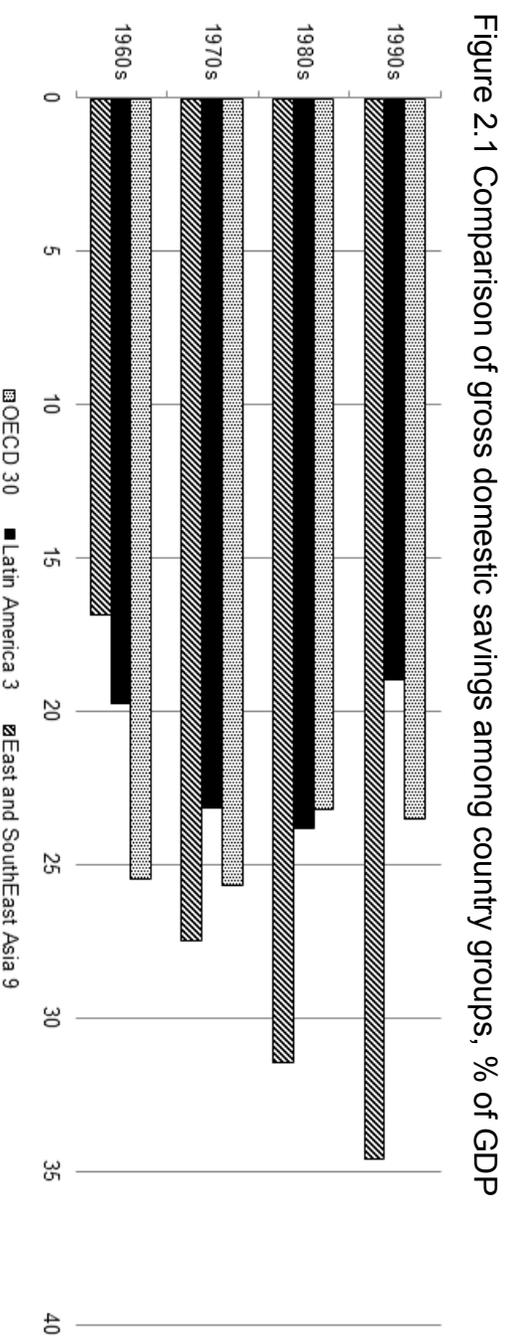


Figure 2.1 Comparison of gross domestic savings among country groups, % of GDP

Note: OECD 30: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States;

Latin America 3: Brazil, Argentina, Mexico;

South East and East Asia 9: Indonesia, Japan, Korea, China, Hong Kong, Malaysia, Philippines, Thailand, Singapore

Source: World Bank, World Development Indicators Online database.

crisis.

Asian “miracle” in the neoliberal explanation

The growing dominance of neoliberal development economics in the 1980s has concentrated on one paradigm of development. The term “neoliberalism” was first used by the Germany Freiburg School for their program of reviving classical liberalism theories of Adam Smith and David Ricardo (Steger and Roy, 2010: ix). The neoliberals also held to Adam Smith’s view that the “invisible hand” of the market was the best device for mobilizing resources for the benefit of all. Neoliberal doctrine was therefore deeply opposed to state interventionist theories, such as the Keynesianism (Harvey, 2007: 20).

As argued by Sanjaya Lall (1996: 1), the main elements of the neoliberalism paradigm are: first, markets are basically efficient and the government is inefficient; secondly, resource allocation is optimized by agents responding to free markets; and thirdly, the best development policy is to remove all interventions which are seen as distortionary and counterproductive.

The 1980s witnessed a downgrading of the role of the state in both developed and less developed countries and the rise of market-oriented deregulation, liberalization and privatization in the transition economies as well as in developing countries (Chia, 1993a: 7). Observing these changes, Fallows (1994: 192) claims “With a few exceptions ... it seems that the ideas of Adam Smith, of Alfred Marshall, of Milton Friedman, have triumphed. We are all capitalists now.”

Neoliberals obtained controlling votes on the boards of the world's two most powerful international financial agencies – the World Bank and the International Monetary Fund (IMF), with the simultaneous influence of other international organizations including the International Labour Organization (ILO), the U.N. and its sister organizations such as the United Nations Development Programme (UNDP) and United Nations Conference on Trade and Development (UNCTAD) which fully represent the views of less developing countries (Todaro and Smith, 2009: 127).

The neoliberal economists have their intellectual roots in Adam Smith's "invisible hand" and the basic idea is dependent on market-oriented economic development to "get the price right" (World Bank, 1993). It emphasized the benefit of free markets, open economies, and in developing countries. It calls for the dismantling of public ownership and statist planning. Failure to develop, according to this theory, is primarily the result of too much government intervention and regulation of the economy (Todaro and Smith, 2009: 110). Moreover, the neoliberal economists emphasize the "rent-seeking" behaviour and the special interests of politicians, bureaucrats and government officials and their interactions in the social system. The results of these are called "government failure" that leads to misallocation of resources and the distortion of economic efficiency (Chowdhury and Islam, 1993: 53; Krueger, 1974; Buchanan et al., 1980).

In explaining the fast economic growth in East Asia, the basic idea for the neo-liberals is that the East Asia economies were following an outward-oriented market-led development, and thus subject to fewer price distortions, and more appropriate and efficient resources allocations (World Bank, 1993). Regarding the role of government in

economic development, they reason the East Asian success is a result of maximizing the role of a free market economy and minimizing the role of government intervention (World Bank, 1991; 1993).

Neo-liberals tend to stress the laissez-faire elements of Asian policies, including the elimination of exchange rate controls and restrictions on international trade, deregulation of the financial sector, privatization of state enterprises, and maintain a minimum role for the state in development (Balassa, 1981; 1991; Bhagwati 1986; Krueger, 1986; Lal, 1983; Sachs, 1985). Patrick (1977: 239) claims Japanese economic performance is “due primarily to the actions and efforts of private individuals and enterprises responding to the opportunities provided in quite free markets for commodities and labour ... the government has been supportive and indeed has done much to create the environment for growth”. Friedman and Friedman (1980: 57) claim that in the 1970s, Malaysia, Singapore, Korea, Taiwan, Hong Kong, and Japan, all relying extensively on private markets, are thriving, while India, Indonesia, and Communist China, all relying heavily on central planning, have experienced economic stagnation and political repression.

More inputs for more outputs

Neo-classical economists have traditionally been following the endogenous growth model, which relies upon the estimation of input relative to the output and the total factor production (TFP) to measure the contributions to economic growth (Fine, 2003: 115; Devinney and Kirchner, 1997). As Krugman (1994) and Lucas (1993) point out, growth in output can be explained either by the growth in input, such as expansion of employment, growth in education level and in physical capital, or by the improvement in

efficiency, resulting from better management or better economic policy or advancement in technology. Based on the estimation of Asian total factor production (TFP), Krugman (1994) argues that Asian economic achievement was due to the improving utilization of capacity, not by improving efficiency. Without any significantly proved TFP, Asia's development was considered to be based on the increase in financial and human resources inputs.

Taking Singapore as an example, Krugman (1994) argues that Singapore's 8.5 per cent annual growth in per capita GDP during 1966-90 was a result of the increases in investment and in the quality of labour input. The domestic saving rate in Singapore increased from 11 per cent of GDP in 1966 to 40 per cent in 1990, while the education level increased from "half of the population had no formal education" to "66% people had at least 12 years of schooling". With the clear evidence of the increase in both quality and quantity of inputs, Krugman (1994) questions the sustainability of Asia's growth when there is no longer any room for the increasing inputs.

Krugman's argument is supported by the fact that saving is much higher in Asia (figure 2.1), therefore there were more financial resources available for production. However, this argument stresses the relationship running from high saving to high investment and growth (see also Horioka, 1994; Feldstein and Horioka, 1980), with much less concern on the reverse direction, running from high growth rates to high saving rates. Therefore, the main problem with this argument is that the high growth in savings and education levels could only be a consequence of the economic growth and in turn helped for further economic development, rather than the initial impetus that help the Asian industry to take

off.

Adams and Prazmowski (2003) argue the rapid growth rates account for high saving which in turn accounts for rapid growth. The causality may depend on the position of the cycle we are looking at. This is an egg-and-chicken problem regarding savings and development: if there were not fast economic growth how can there be more savings, and if there were not high savings how can there be fast economic growth? Moreover, Devinney and Kirchner (1997: 408) argue, the problem with the traditional growth theory is that it postulates that growth arises from random and purposeful developments or innovations within the economy. It only takes into account the “pure” inputs, including technical and labour productivity as the cause of the growth, while these “pure” inputs have been assumed to be diminishing.

Export-oriented development and liberalization

Modern orthodox liberalization theory attempts to explain the Asian miracle in their remarkable progress toward trade and financial liberalization, and especially the adoption of an export-oriented industrialization (EOI) strategy. Chowdhury and Islam (1993) offer detailed discussion about the importance of EOI strategy in Asia’s historical development. Over the 1950s and 1960s, developing countries, including the Asian economies, passed through the initial stage of import substitution industrialization (ISI), a process to build up domestic production in order to replace the imports of nondurable consumer goods, such as clothing, textiles, leather and furniture which require little technology and sophisticated industrial structure. When the local market is fulfilled, the economy would slow down. After this initial development, developing countries chose a

different way for their further economic growth. Latin American countries, represented by Brazil, Mexico and Argentina chose for a continuing import substitution, which means to further replace the imports of more sophisticated durable and intermediate products. Balassa (1988) argues as the second stage of import substitution requires more complicated industrial structures to provide parts, components and accessories with precision for producing intermediate products such as chemicals and machineries, this strategy proved to be very costly to Latin American countries.

On the other hand, the East Asian economies, especially the Asian NICs, chose an alternative policy regime – an export-oriented industrialization strategy that focused on exporting goods for which the nation has a comparative advantage. James, Naya and Meier (1989: 27) point out the EOI strategy tends to involve fewer and smaller departures from free trade/market supported by neoliberals than do the import-substitution industrialization (ISI). Neo-liberal prescriptions for trade liberalization often contrasted the faster growth permitted by export promotion with the slower growth resulting from import substitution. The EOI growth strategy of the Asian NICs, is considered to contrast with excessive state intervention and ISI strategies in other developing countries, especially in Latin America (for example, Brohman, 1996: 108; Lal and Rajapatirana, 1987; Fishlow, 1990).

While Asian NICs created conditions for sustained export-led growth based on international competitiveness, Latin American countries depended on inward oriented development models through increasing state intervention and expanded international borrowing, resulting in distorted prices and severe macroeconomic imbalances. For neo-

liberals, this divergence in development strategies explains the contrast between high growth rates in Asian NICs and the indebtedness, inflationary pressure and stagnant growth in Latin America (Balassa, 1991; Lin, 1988; World Bank, 1987).

James, Naya and Meier (1989: 27) and Krueger (1995) claim that the countries that adopted an EOI strategy had greater openness and competition, therefore more efficient resource allocation according to the comparative advantage, and consequently enhancing international competitiveness. In addition, Balassa (1988: 280) argues it makes possible for Asian NICs to overcome the limitations of their domestic markets in exploring economies of scale and ensuring full capacity utilization. Lall (1996: 3) points out that the EOI strategy was identified by neo-liberals equally with free trade, openness to foreign transactions, such as financial investments and technology flows. With “neutrality” in domestic resource allocation and liberal government that provided basic public goods, a legal framework of Asian markets was established.

The EOI involved the trade liberalization including the dismantling of import barriers and the encouragement of export-oriented manufacturing productions (Hollingsworth, 2007: 6). In Korea, exporters obtained tariff exemptions on imported intermediate inputs used in export production in 1959. Exporters were granted exemption from indirect taxes on both imported and domestically purchased intermediate inputs and a half income tax was reduced on foreign exchange earnings from exporting in 1962. From 1966 onwards, imports of capital goods and equipment used in export production, both directly and indirectly through input supplies, were exempted from tariffs. Meanwhile, import controls have been liberalized and partial or complete tariff exemptions have been

increasingly granted since the mid-1960s, although the basic tariff structure that had been designed to protect import substituting industries remained essentially unchanged (Verbruggen, 1987: 319).

The dramatic increase of Asian exports can be reflected in the two indicators: the share of world export and the ratio of export/GDP. Data from the UNCTAD shows positive results for both of these indicators (figure 2.2). As a result of the trade liberalization and the EOI strategy, shares of the six East Asian economies in the world exports rose from 2.19 per cent in 1970 to almost 10 per cent in 2000. The constant increase in export growth occurred despite the slowdown environment in the growth rate of world trade during the two oil crisis in 1970s and the increased trade barriers in developed countries. Another measure of an economy's export orientation is its share of exports in gross domestic product. Putting the six East Asian economies together, the data shows the export/GDP ratio raised substantially from 18.3 per cent in 1970 to 40 per cent in 1997, significantly higher than the average ratio of approximately 23 per cent for the developing economies in the same year (World Bank, 1999a). On the individual countries' perspective, Hong Kong and Singapore had extremely high ratios. The export/GDP ratio for Singapore raised from 81.9 per cent in 1970 to 140.9 per cent in 1995. Although high, the ratio of Taiwan and South Korea declined from mid-1980s to mid-1990s due to rapid increase in GDP. Other East Asian economies, namely Thailand, Indonesia, Malaysia and the Philippines show an increase in the export/GDP ratio, reflecting faster growth in exports (Kawai and Urata, 2004: 16).

Data from the World Bank also show that the export structures of these economies have

also undergone significant changes (table 2.6). The share of more capital-intensive products like machinery and transport equipment in merchandise exports has gone up quite significantly in all four NICs. The shares of fuel, minerals and other primary products in total exports have been reduced to 9 per cent or less in these economies, while the shares of machinery and transport equipment increased by amounts ranging from 200% to more than 1100% from 1965 to 1989. With the manufacturing upgrades and structural change, the East Asian economies have shifted the composition of their manufactured exports from labour-intensive to more sophisticated production. Given such changes, the structure of East Asian NICs' merchandise exports by the 1990s looked more similar to that of industrial market economies than that of middle-income economies.

In addition to trade liberalization, Asia's export-oriented industrialization process was associated with the progressive financial liberalization and the removal of capital flows. As EOI was well underway after the 1970s, liberalization of the banking sector began to take place and included the admittance of foreign banks into the domestic markets of East Asian countries and the deregulation of interest rates in order to encourage savings (Tan, 2000: 19). In Korea, the government has taken major steps to liberalize the financial market in the 1960s and 1970s. In order to avoid banking domination of the financial sector, the government reduced the regulation on non-banking financial intermediates, many of which have long been controlled by private *chaebols*⁴, resulting in an increase in

⁴ It is a Korean word for "business family" and it is usually used to refer business conglomerate.

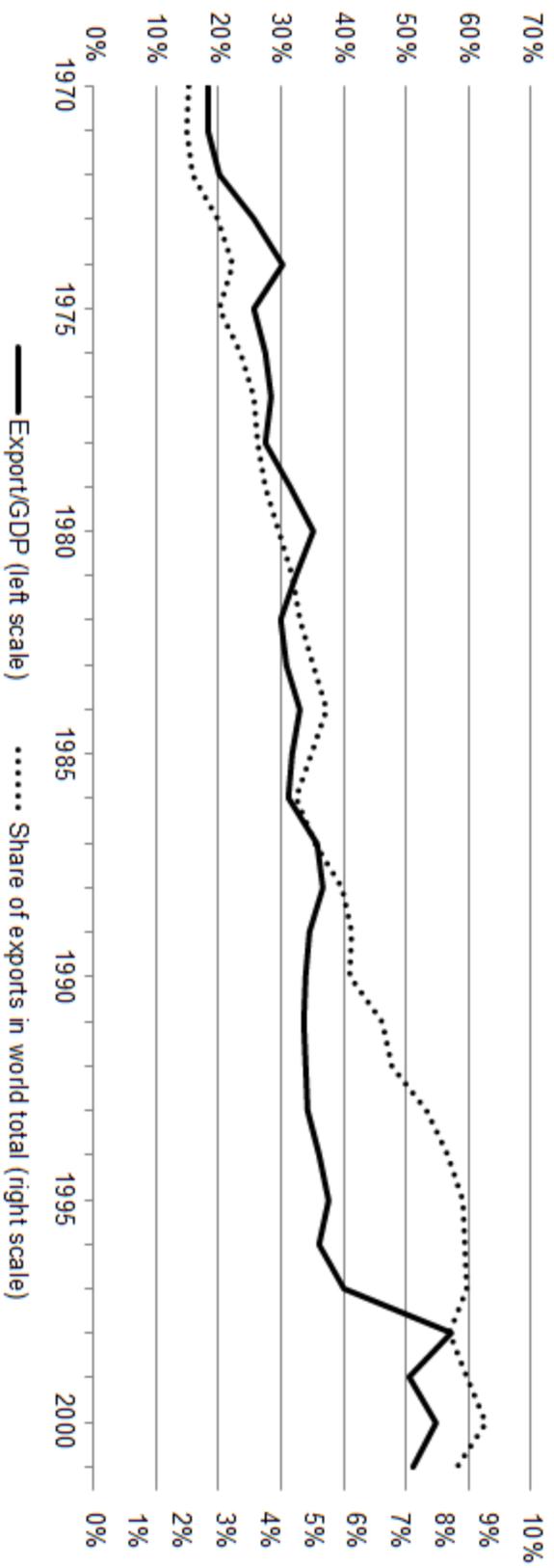
their share of total deposit liabilities in the 1980s. The denationalization of commercial banks led to a significant shift from government control to the *chaebols*. The conversion of local short-term financing firms to either securities firms or commercial banks in the 1990s marked another important step forward in liberalizing the financial sector, allowing increased participation of private firms (Kim, 1997: 36).

The result of the trade and financial liberalization was that large external financial resources flowed into Asia, especially from 1980 onwards (table 2.7). Financial liberalization also promoted a steady decline in the flow of foreign capital from official sources and a rise in private financing, except Korea, where official source still occupied more than 50 per cent in the 1980s.

James, Naya and Meier (1989: 100) found Japan and the United States were the largest investors in Asia in the 1970s and 1980s, accounting for more than half of all flows. Japan invested in Asia more than it did to other developing countries, while the U.S.'s share was somewhat smaller in Asia than they were for other developing countries as a whole.

The foreign direct investment (FDI), being one of the most important types of private capital flows, is also mentioned as a factor contributing to the fast growth of Asian NICs. FDI is considered as an important source of technical transfer (World Bank, 1993: 304; Ostry, 1997: 137; Leipziger and Thomas, 1993: 8). With their export-oriented strategy, East Asian economies achieved remarkable success in attracting foreign direct investment, compared to other developing countries (UNCTAD, 1994, Chen, 1993). This

Figure 2.2 Export expansion in crisis-affected countries*, %



Note: *Countries include Indonesia, Malaysia, Philippines, Singapore, Thailand and Korea

Source: Calculation based on the UNCTAD, Handbook of Statistics database

Table 2.6 Structure of merchandise exports, % of share

	Fuels, minerals, metals		Other primary commodities		Machinery and transport equipment		Other manufactures		Textiles and clothing	
	1965	1989	1965	1989	1965	1989	1965	1989	1965	1989
Hong Kong	1	1	5	2	7	23	87	73	52	39
Taiwan	2	2*	57	7*	4	29*	37	62*	-	-
Korea	15	2	25	5	3	38	56	55	27	23
Singapore	21	18	44	9	10	47	24	26	6	5
Industrial economies	9	7	21	12	31	41	39	40	7	4
Mid-income economies	27	26	46	21	14	20	13	33	3	11

* Number for 1986

Note: textile and clothing is a subgroup of other manufacturing

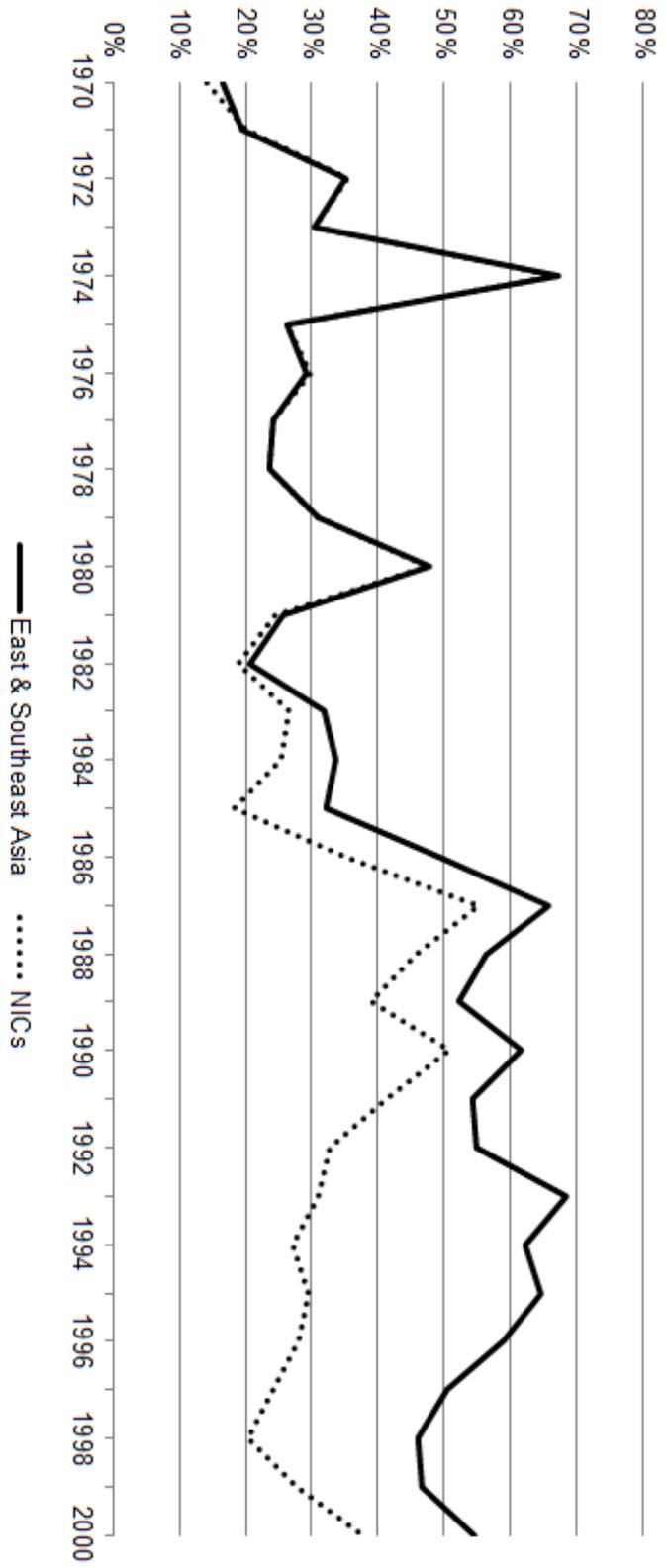
Source: World Bank, World Development Report (various issues)

Table 2.7 Total net external resources flows, US\$ millions and %

	1969-1971	1972-1976	1977-1980	1981-1983
Hong Kong	229.1	213.2	587.2	1412.0
(%) of Official	30.8	27.0	2.0	2.6
(%) of Private	69.2	73.0	98.0	97.4
Korea	547.2	846.3	1328.5	1533.8
(%) of Official	73.2	66.1	56.5	65.0
(%) of Private	26.8	33.9	43.5	35.0
Singapore	81.3	165.5	444.7	1106.4
(%) of Official	55.3	34.4	14.0	1.6
(%) of Private	44.7	65.6	86.0	98.4
Taiwan	186.2	255.1	234.9	565.6
(%) of Official	47.0	41.6	74.5	29.5
(%) of Private	53.0	58.4	25.5	70.5

Source: calculation based on World Bank, World Development Indicators; Hill and Johns (1985) for Taiwan

Figure 2.3 Share of inward FDI flows to all developing countries, %



Source: UNCTAD, FDI online database

is proved by the fact that over the 1970s and the first half of 1980s, East and Southeast Asia attracted about one third of all the FDIs flowing to developing countries (figure 2.3). Nearly all the FDI flowing into Asia was absorbed within the newly industrializing countries. From the second half of 1980s onward, the East and Southeast Asia region attracted even more FDIs, reaching to almost 70 per cent in the mid of 1990s. However, the NICs show a declining share in FDI flowing to Asia, due to the rise of China as a main recipient of FDI.

Lall (1996: 202) divided East Asian economies into four categories in terms of FDI and industrial strategies. First, countries that followed passive open-door policy on FDI and did not intervene in other ways to selectively promote industrial development (e.g. Hong Kong); secondly, countries that promoted local enterprises in certain activities, but adopted effectively open-door non-interventionist policies in most export-oriented sector (e.g. Thailand, Malaysia); thirdly, countries that did not seek to promote local industrialists, but intervened pervasively and selectively to guide and induce investors to upgrade their activities and increase local technological activity (e.g. Singapore); fourthly, countries that selectively restricted FDI and sought to maximize technology transfers in the context of comprehensive industrial policy to intervene in trade, finance, skills, technology and institution building (e.g. Korea, Taiwan, and Japan).

State vs. market – the World Bank’s market-friendly approach

The World Bank’s (1993) “miracle” report interprets the Southeast Asian economic success as the result of outward orientation and market-friendly policies, including maintaining macroeconomic stability, promoting human-capital accumulation, opening to

international trade, and an environment that fosters private investments and competition. The report concludes that industrial policies were “largely ineffective” (World Bank, 1993: 312) and also argues that most of the government interventions in East Asian economies in the 1990s are either too risky or too impractical, for other developing countries to imitate.

In an earlier published 1991 World Investment Report, the World Bank proposed the market-friendly approach that looks at the relationship between the state and the market. On one hand, the World Bank seems to pay more attention to the role of the state, when it stresses that government should do more than what neo-classical orthodoxy would allow, which is merely stepping up for market when they fail to work, and the market must be completed by government policies such as investing in education, providing macroeconomic stability, encouraging competition and building a better regulatory system (World Bank, 1991: 11). On the other hand, it emphasizes that beyond these roles, governments tend to “do more harm than good” (World Bank, 1991: 147), and that “governments need to do less in those areas where markets work, or can be made to work, reasonably well” (World Bank, 1991: 9). While admitting the widespread market failures in development countries and some state invention is necessary, the report stresses the extent of intervening must be within the “market-friendly” scope.

In explaining the role of governments in the economic achievements of East Asia and Japan, World Bank (1991: 5) argues these governments disciplined their interventions with international and domestic competition to anticipate (rather than resist) the market competition, and it was careful to ensure that intervention did not end up distorting

relative prices unduly. Moreover, the Bank concludes government intervention in East Asia was more moderate than in most other developing countries, as East Asian countries refuse both extremes of “dirigisme” and that of “laissez-faire”.

A number of scholars notice the politics involved in making the “miracle” study. The miracle report was done largely due to the strong requests of the Japanese government (Wade, 1990; 1996; Jomo, 1996; Lall, 1996). Wade (1996) documented the Japanese challenge to the World Bank’s free market ideology and the political process for the Bank to make the “miracle” study in detail. Japan’s challenge was based on its more strategically and interventionist idea about the role of the state in economic development, illustrated by the actual benefits from the industrial policies of Japan, Taiwan and South Korea and the extraordinary economic achievement in other East Asian economies. The dispute between Japan and the Bank also comes from the benefits of delivering “direct” credit to priority uses, which according to the Japanese, was a vital part of the organizational infrastructure of these policies realized in a “non-liberalized” financial system.

On the World Bank’s side, this was seen as a serious threat. Wade (1996: 15) gives a number of reasons why the Bank felt the threatened, and most of these reasons were political, such as concern for its role as a main credit lender, undermining its strong advocate for financial system deregulation, running against the strategic and diplomatic power of the US, etc. Under the pressure of Japan and its willingness to pay for the project, the Bank reluctantly permits to carry out the “miracle” study. When drafting the study, John Page – head of the study, said: “We were eager to find a story that would be

new, all the more so because the Bank's standard 'market-friendly' story had already been told in World Development Report 1991" (cited in Wade, 1996: 19). While the Bank found it is difficult to reconcile the Asian experiences with its 'market-friendly' orthodox view, the "miracle" study attributes the Asian economic success to a number of factors for "getting the fundamentals right", including controlling inflation and maintaining competitive exchange rates, while deliberately underestimating the role of government. Stiglitz (2002: 91) criticizes the "miracle" report by stating that:

The IMF and the World Bank had almost consciously avoided studying the region, though presumably, because of its success, it would have seemed natural for them to turn to it for lessons for others. It was only under the pressure from the Japanese that the World Bank had undertaken the study of economic growth in East Asia ... and then only after the Japanese had offered to pay for it. The reason was obvious: The countries had been successful not only in spite of the fact that they had not followed most of the dictates of the Washington Consensus, but because they had not.

Lall (1994: 647) argues the market-friendly approach drops some of the assumptions of the neo-classical approach in two aspects. First, it maintains that the market may not operate perfectly and "market friendly" interventions can be accepted, such as the education markets that need intervention to create human capital for industrialization. Secondly, it accepts that markets may fail in coordinating investment decisions within industry.

Todaro and Smith (2009: 128) argue the market-friendly approach is a "variant" on the neoliberal principle, as it recognizes there are many market imperfections in developing

countries and governments do have a role in facilitating the operation of markets through “non-selective” “market-friendly” innovations such as investing in infrastructure, health care and education.

Hayashi (2006: 73) describes the market-friendly approach as a “middle ground” between neo-classical orthodoxy and the revisionist view, because while reaffirming the importance of market-based decision-making, the approach also accepts the effective but carefully delimited government activism. With Japan’s hope for the miracle study to embrace a larger role of government in economic development, Hayashi (2006: 74) points out the miracle report gives a negative view about the effectiveness of industrial policy in general and that it never went outside the confines of neoliberal economics.

The “miracle report” and the market friendly approach incurred a lot of criticisms by many authors (Wade, 1994; Amsden, 1994; Singh, 1994; Chang, 1994; Jomo, 1996; Lall, 1996, among others). The first type of criticisms argue the “market friendly” explanation does not accurately reflect the nature of the policies followed by East Asian governments, as irrefutable evidence shows that East Asian governments clearly did more than just remedy market failures (Amsden, 1989; 1994; Jacobsson, 1993; Pack and Westphal, 1986; Kwon, 1994; Singh, 1994; Wade, 1990). According to these authors, the Asian industrialization was completed largely under the government direction and government policies were modified to support the whole process. As Haggard (1990: 127) argues, the process of industrial development in East Asia NICs was completely “shaped” by the institutionalized pattern of policy making and government interventions through the highly centralized leadership style, the state-owned financial sector as an instrument of

industrial policy, and the political relationship between governments and the private sector. As Bhagwati argues:

The Far Eastern economies (with the exemption of Hong Kong) and others that have come close to the EP (export promotion) strategy have been characterized by considerable government activity in the economic system. In my judgment, such intervention can be of great value, and almost certainly has been so, in making the EP strategy work successfully (quoted in Wade, 1990: 23).

There is overwhelming evidence that the East Asian governments did not intervene either reluctantly or transparently (Thompson, 1998; Chiu and Lui, 1998). Asian governments aggressively picked up or created sector-specific industries to develop by intervening in trade, credit allocation, technology import, education and much more. In fact, Singh (1998: 70) argues the East Asian economies did not follow the “market friendly” approach at all, because they did all the things that a “market friendly” development is not supposed to do, including “import controls; control over foreign exchange allocations; provision of subsidized credit, often at negative real interest rates, to favoured firms and industries; control over multinational investment and foreign equity ownership; heavy subsidization and ‘coercion’ of exports, particularly in south Korea; a highly active state technology policy; restrictions on domestic competition and government encouragement of a variety of cartel arrangements in the product markets; promotion of conglomerate enterprises through merges and other government measures; wide use of ‘administrative guidance’, indicating non-transparency of government intervention.” All these anti-market interventions presented a difficult question to the neo-liberals, as to whether these interventions are desirable or relevant to the economic

growth.

The second type of criticism comes from the Bank's effort to draw a distinction between the so called desirable "market friendly" interventions and other undesirable selective interventions. Lall (1996: 6; 1994: 648) argues there are no theoretical grounds for distinguishing between market "friendly" interventions and other selective interventions, as any policy that remedies market failure is "friendly" to the market. Therefore, there is no reason to argue that beyond "market friendly" intervention, the intervention tends to do more harm than good.

Moreover, Lall (1996: 7) argues the definition of market-friendly intervention by the Bank is also suspect, according to which the education and formation of skill are broadly non-selective. But the East Asian university-level education or the specialized industry training can be extremely selective. There is evidence to suggest that education in Asia was in fact selective with close government direction to provide skills needed for the targeted industries (Chen and Jan, 2005 for semiconductor industry in Taiwan; Kohli, 1994 for Japan and Korea). In fact, East Asian industrialization was characterized by intentional intervention and the "picking the winner" strategy through the conducting of industrial policy (Park, 2006: 12; Chowdhury and Islam, 1993: 106; Leipziger and Thomas, 1993: 26).

Other criticisms focus on the "miracle" report's conclusion that industrial policies were "largely ineffective" (World Bank, 1993: 312). Stiglitz (2001: 518) points out the controversy surrounding the industrial policy leads to two questions – the counterfactual

and the aggregative quantitative significance of these interventions, that is, what would have happened without industrial policies? And did they work and did they make much difference? This is also noticed by Wade (1994: 28), who argues the way the Bank examines this question is problematic because the conclusion did not rest on an examination of the effectiveness of specific policy instruments used to promote targeted industries.

Jomo (2001: 483) argues the consequences of state industrial policy have been mixed, because much of the intervention had objectives other than industrial promotion. Such objectives include the credit control with the purpose to create a system of supervision and control (Woo-Cumings, 2001: 360). Accordingly, Jomo (2001: 483) argues interventions should be judged on their own terms, and specific negative consequences should not be taken to reflect all state intervention nor all industrial policy.

Amsden (1994: 630) points out the Bank's conclusion was based on its two arguments: first, the industrial policy created a "market conforming" industrial structure (World Bank, 1993: 315), that is, the same structure that neo-classical theory predicts would have evolved if East Asian economies had had no industrial policy at all; and secondly, the targeted industries had lower productivity growth than some other industries. Amsden (1994: 629) argues that while the first argument is weak, the Bank's second argument was based on an ambiguous definition of "targeted industries" and a small number (only three) sample studies. Amsden (1994: 630) concludes that "All in all, the evidence is either unbelievably weak or altogether inadmissible to support the report's controversial conclusion that industrial policy in the world's industrial policy meccas was 'largely

ineffective.”

Asian “miracle” in the developmental-state explanation

Contrary to the ideas of neoliberal economics, the development state view holds that the market mechanism alone is insufficient, and states intervention is necessary to ensure the market works, through government planning to promote economic growth (Kohli, 2004; Amsden, 1989; Wade, 1990). Radice (2008: 1153) points out that:

Given the marginalisation of dependency theory and of Marxism more broadly in the past twenty years, the DS (development state) became by about 1990 the major ideological rallying point for those who wish to contest the appropriateness of neoliberalism and the Washington Consensus as a framework for effective governance and economic development in the global South.

The development state concept, with the idea that the state can play a central role in economic development, has a very long history, since the 19th century critiques of free trade by Alexander Hamilton and Friedrich List (Radice, 2008). The Gerschenkron’s (1962) analysis of the first “late” industrializations (i.e. Germany, Switzerland, and Belgium) in catching up with Britain clearly demonstrated the major role of governments and banks in those countries in initiating industrial expansion.

Gerschenkron (1962) argues in these countries the banks stepped into business to not only provide necessary funding for entrepreneurs, but also make key investment decisions and in the even more backward Hungarian and Russian states, the government created, funded and directed much of the new industrialization. What Gerschenkron considers to be important is that the further behind the state was, the stronger the ideology required to

mobilize resource for development, demonstrated by elitist St. Simonianism in France, nationalism in Germany and Stalinist Marxism in Russia (Tipton, 1998: 408). The developmental state approach was also applied to the development of Latin America countries, where the states act like entrepreneurs and bankers, and stepped in as a chief investor in industry because of the weakness in the financial system (Woo-Cumings, 1999a).

In contrast to the neoliberal model of liberal free-market capitalism and the socialist state-planned economy, political scientists such as Wade (1988, 1990), Johnson (1982), White (1988), Amsden (1989), Weiss and Hobson (1995) focus on the developmental state theory which is depicted as a distinctive political economy that combines elements of both market and plan. Development state advocates have recognized regionally specific factors that have shaped both policy practice and the practice of politics, and particularly in the work of Amsden (1989) on South Korea, Johnson (1982 and 1995) on Japan and Wade (1990) on Taiwan.

Amsden (1989) and Wade (1990), argues that the core of East Asia's success is not attributed to the free market, as the neo-classical economists have postulated, but lies in the policy activism of national governments. Amsden (1989) proposes a new paradigm in development – the “late industrialising model”, which emphasizes learning, as opposed to invention and innovation in the earlier industrialization. In the case of Korea, Amsden highlights two critical features of the Korean industrialization. First, “the state intervenes with subsidies deliberately to distort relative prices in order to stimulate economic activity”, and secondly, “in exchange for subsidies, the state has imposed performance

standards on private firms” (Amsden, 1989: 8). These are made possible by a strong state, because “Industrialization was late in coming to ‘backward’ countries because they were too weak to mobilize forces to inaugurate economic development” (Amsden, 1989: 12).

Drawing on the experiences of industrialization in Taiwan, Wade (1990) gives a number of reasons to challenge the neoliberal explanations. After examining the state and foreign trade and investment, the politics of investment and industrial policy, the bureaucracy and the domestic political system, Wade (1990: 301-2) found a large role of government in the industrialization process in Taiwan:

First ... The government has acted to alter the (social structure of investment) profoundly, making it more conducive to industrial investment ... Second, the government has affected relative prices in such a way as to ... encourage investment ... Third, the government has used a number of more direct methods to shape the investment patterns. This is clearest in the case of the public enterprise sector, one of the biggest in the non-communist world.

Therefore, Wade concludes that “the state in Taiwan has been doing much more than the neoliberal accounts recognize to increase supply responsiveness and to steer the direction of industrial growth” (Wade, 1990: 73).

There is widespread evidence that the East Asian governments have intervened heavily in their industrialization process, through influencing the structure of the economy by protecting infant industries (Jomo, 2001: 484), and by choosing key industrial sectors for expansion (Meaney, 1994 on Taiwan semiconductors; Chowdhury and Islam, 1993: 93 on consumer electronics and automobiles in Korea; Chu, 1994 on the automobile industries

in Taiwan and Korea; and Chaturvedi, 2005 on biomedical sector in Singapore). Radice (2008: 1154) notes that the strong East Asian states intervene heavily to deliberately “get the prices wrong” in order to boost industries, and claims that:

[The development state model] is designed around the principle that existing price relativities and other market signals should be deliberately distorted, through selective tariffs, subsidies and access to finance, in order to induce a step-change in the pace and direction of capital accumulation ... Meanwhile, the authoritarian character of the state ensures that competing interests based on class, class fraction or sector are subordinated to the state’s goals, which are presented as largely determined by the requirements of industrialization and technological change. The state can also, insofar as it wishes, command through taxation the resources required to provide public goods such as education and public health.

Jomo (2001: 484) points out developing international competitiveness requires government protection and support for the infant industry, including temporary tariff protection, subsidies, human resources training, and this involves a “learning-by-doing” process in East Asia, from infant-industry protection to export promotion and gradual exposure to the international market, while ensuring productive efficiency, cost competitiveness and production quality improvements. Stiglitz (2001: 517) says it was clear the government intervened in the allocation of resources because they promoted exports by making credits more available to successful exporters and by directing credit to selected sectors. Woo-Cumings (2001) gives more evidence on credit allocation in Korea.

Kohli (2004) makes an important point, that industrialization requires state initiatives because it involves social change, rather than merely its narrow outcome – the increase in

industrial production from existing or new factories. The social change includes “a situation of political stability, the availability of experienced entrepreneurs and of a capable urban work force and mobilisable capital, the emergence of a market for industrial goods, and the presence of a growing body of technological knowledge” (Kohli, 2004: 8). Quoting on Alexander Gerschenkron’s argument that in contrary to England’s “spontaneous” model, the European “late-industrializers” require “a movement on a broad front” by the state to help industry to take off by mobilizing capital, creating a work force and facilitating technological transfer, Kohli (2004) argues an organized initiative from the state is needed more in the “late-late-industrializers” including Asia, Africa and Latin American developing countries.

The orthodox explanation has been challenged since government intervention was a common occurrence in these economies, together with barriers to competition, price distortions and trade protection and so much more that violates the *laissez-faire*. However, the East Asian development states have also incurred criticism as states taking over markets are often associated with the prevalence of corruption, rent-seeking, favouritism and cronyism (Doner and Ramsay, 2000 for Thailand; Kang, 2002 for Korea and Philippines). As Wade and Veneroso (1998: 6) point out, in a government controlled banking system with high savings and large amounts of inflowing foreign capital to be intermediated, a certain level of corruption is inevitable.

The development states in Asia were certainly not immune to these problems. However, the distinctive feature of Asian development states is that the “resources generated from corruption seemed ... to be put to productive use rather than ... siphoned off for private

consumption” (Putzel, 2002: 166). Khan (2000: 21) clarified this distinctive feature by contrasting South Asia’s relatively low-growing economies with East Asia’s fast developers. In East Asia, resources were channelled to capitalists to produce a pattern of “growth-enhancing accumulation”, while in South Asia resources were directed to non-capitalists and resulted in “growth-retarding accumulation”. Moreover, Jomo (2001: 472) argues a coordinating role by the East Asian states can overcome the corruption and rent-seeking problem as it is capable to create, deploy and allocate rents to induce investments in state-targeted priority areas.

The East Asian government intervened directly with markets and utilized selective incentives through carrying out the industrial policy, especially in Korea, Japan and Taiwan. The relevant discussions on East Asian industry policy often focus on two things. First, it was often referred to as “selective” industry policy, illustrated by the fact that government is picking up particular industries over others to develop. Secondly, the planning and implementation of industry policy in the East Asian NICs suggests a strong government control over the market in the overall industry development (Chang, Park and Yoo, 1998; Chang, 1994; and Amsden, 1989 for Korea; Johnson, 1982 for Japan; Wade, 1990 for Taiwan).

A major problem with the relevant talk on industry policy is that the concept of industry policy is not clearly defined as to what kind of policy is accountable to industry policy. For either proponents or opponents of industry policy, the definition seems rather broad. For instance, Reich (1982: 75) widely defines that the industry policies are those that are “favouring promising industries, creating skilled workforces, developing infrastructure,

regional policy” Pinder (1982: 44-52) goes a step further to explain the components of industrial policy in some detail, which includes: general industrial support policies such as manpower policy, fiscal and financial incentives for investment; public investment programmes; public procurement policies; fiscal incentive for R&D; firm-level policies such as specific R&D support; antitrust policy; merger policies to create national champions; support for small firms; regional policies such as the development of physical and social infrastructure and the establishment of industrial complexes; generalized trade protection; sectoral policies such as the organization of recession cartels in depressed industries; product upgrading in labour-intensive industries. Opponents of industry policy give a somewhat similar definition. Donges (1980: 189) simply defines industry policy as a policy that “embraces all government actions which affect industry.” Corden (1980: 182-3) complements that:

The best industrial policy may be to provide an adequate infrastructure, some limits on the powers of monopolies and cartels, an education system that helps to generate the human capital for industrial success, indicative guidance about industrial prospects (without compulsion or subsidies), stability and simplicity in the system of taxation, a free and flexible capital market and a steady movement towards zero sectional protection, whether direct and indirect.

Without stress on any specific policies, these definitions hold that industrial policy is effectively relevant to any policies that affect industrial development. True, all the above policies would have implications on industrial development, but such a broad definition makes it hard to analyse the effects of the component of industrial policy and the possible interactions among these policies.

2.4 Conclusion

This chapter has discussed the various theories explaining the fast economic development in East and Southeast Asia. The myth of the Asian miracle lies in the fact that it seems to confirm both the orthodox view of a free market and the development state view of a larger role of government in the economic development. On one hand, opening to foreign capital to upgrade industrial and technological capabilities in Southeast Asia has had tremendous implications for the industrialization progress in the region. On the other hand, there was vast extensive government connection with the private sector. In order to ensure a fast development of the “targeted” sector, the state played an important role not only in the industrial policies, but also in the financial sector and trade sector. East Asian governments mobilized financial resources through a banking dominated financial system, and liberalized trade policies to promote exports while maintaining certain level of trade barriers to protect the infant industry and adopted macroeconomic policy (either or both the interest rate and exchange rate policies) to ensure a favoured environment to upgrade the “targeted” industry.

The two rival theories of free market and developmental state both have some validity in explaining the “miracle”, although criticisms mainly focusing on the free market argument, given the numerous evidence that the “East Asian miracle” was promoted under the “tailored” industrial policies, financial policies, trade policies and macroeconomic policies by the government. In almost every East Asian NIC, governments designed a legal and policy framework for its institutional and industrial development and promoted the development in many ways, and more importantly,

designed a monitoring mechanism to ensure the achievement of these policies.

However, for global financial institutions such as the World Bank and the IMF, in spite of the significant state intervention, East and Southeast Asia was the paragon of supposedly neoliberal free market development through much of the 1990s. These international neoliberal promoters advocate that through the implementation of neoliberal policies with the goal of facilitating economic growth through increased investment and growth in export, East Asian economies achieved success in reducing poverty and inequality and increasing national income and living standards. However, as Nevins and Peluso (2008: 8) point out, the neoliberal policies and practices need to curtail alternative forms of accumulation to capitalist accumulation. All sorts of commons, such as public schools or unpaid domestic labour, serve to limit possibilities for private investment and profit and undermine the ability of capital to expand. The state-led industrialization in Asia involves numerous neoliberal projects that have entailed not only privatizing such public goods, but also weakening the social welfare activities of the state.

Through focusing on the “community composition”, De Angelis (2007: 126-128) argues the “flying-geese-pattern” industrialization directs FDI to seek for cheaper labour, which does not eliminate conflict of capitalist social relations of production and the hidden class struggles but only creates the conditions for new forms of its reoccurrence. Indeed, the industrialization process in the East Asia has been accompanied by a large number of working-class strikes. In Korea, for example, large working-class upheaval began in the late 1980s. Between 1986 and 1990 the labour union membership doubled from one to two million and the “sit-down strike” became common. In industrial cities of Masan and

Changwon, a virtual worker's revolt took place in 1987-88 when company assaults on a group of women strikers provoked an outpouring of solidarity strikes and the joining together of thirty new independent unions. With member of half a million, the Korean Confederation of Trade Unions (KCTU) organized several worker protests in the 1990s. In the decade of 1990-2000, South Korea had one of the most combative union movements in the world (McNally, 1998: 150).

To the later financial crisis, the fast economic development in the miracle years has had two important implications. First, while the trade and financial liberalization that accompanied the Asian development was helpful in bringing in foreign capital, technology, management skills and entrepreneurship, the East Asian economies were becoming increasingly integrated into the world market, and especially world financial market. This brings more risks as Asian countries expose themselves to large capital flows which require sophisticated policies to monitor and regulate. Secondly, the government interferences with the business sector, while providing strong impetus for the industrialization, can also make many structural problems "hidden" in these economies. The next chapter focuses on the causes of the crisis and gives more discussions about these implications.

Chapter 3 Causes of the crisis

3.1 Introduction

A great deal has been written on the origins and nature of the Asian crisis since its onset. The basic divide in these debates, over the causes of the crisis, is between those who attribute blame to the financial panic and capital flows, reflecting inherent instabilities in international capital market (Radelet and Sachs, 1998; Wade, 2000; Furman and Stiglitz, 1998), and those fundamentalists who see that the primary cause lies in domestic weaknesses and policy errors (Alba et al., 1999; Corsetti, Pesenti and Roubini, 1999a; Krugman, 1998a; Goldstein, 1998; Fischer, 1998a).

These two explanations are not mutually exclusive, but they differ greatly in their emphasis. Forcefully advocated by Radelet and Sachs (1998), the first line of thought reasons that the Asian financial crisis was a consequence of self-fulfilling panic-induced illiquidity of capital markets which was worsened by the “herding” effects. The crisis was seen as an illiquidity rather than an insolvency problem. The view also stresses the vulnerability of global capital flows and the effects of economic liberalization, especially the capital account liberalization that leads to increased instability in developing countries (see Furman and Stiglitz, 1998; Stiglitz et al, 2006: 175).

In the second line of thought, the crisis was not a temporary shortage of liquidity, but can best be understood as the consequence of structural defects in the defective Asian development model that deviated from the principles of free market economics. Supporters of this view argue the root cause of the crisis lies in the moral hazard,

cronyism and nepotism derived from widespread political interference with market processes (see such as Goldstein, 1998; Haggard, 2000) and they propose arms-length relations between banks and firms, increased transparency and stronger corporate governance (Estanislao et al., 2000).

Regarding these two rival explanations, some scholars argue the answer for the cause of the Asian crisis is, some of both (such as Wade, 1998; Estanislao et al., 2000), while some believes there is a choice between fundamental-based explanations and the financial panic-based explanations (such as Corsetti, Pesenti and Roubini, 1999a, 1999b) and they choose to believe the former. However, Corbett and Vines (1999: 69) argue that their choice, it is not at all clear why. Instead, they believe the crisis is an outcome of a flawed process of financial liberalization.

3.2 The crisis and the Asian development model

The recession in Japan and the financial crises in a number of other East Asian economies in the 1990s have made popular the view that it was industrial policy that was behind the “downfall” of the East Asian model, creating economic problems rather than miracles in the region. According to orthodox economists, the root of the economic vulnerabilities in Asia were regarded in the political and institutional weaknesses that are typically referring to the problem of interventionist industrial policy and the close business-government relationship involving cronyism and nepotism, with many other internal factors that have been encapsulated in the term “crony capitalism” (Haggard, 2000: 15). This in turn, encouraged widespread “rent-seeking” activity and created a severe ‘moral hazard’ problem because international investors believe they will be bailed out if their

loans became bad (Krugman, 1998a). The ultimate consequence of this has been a serious misallocation of resources and structural imbalances in the economy because investment decisions have effectively been made on the basis of political rather than economic criteria (Cathie, 1997).

The Asian domestic weaknesses are thought to be prevalent in both banking and corporate sectors. In the banking sector, the problem consists of the over exposure to the property and equity market and the building-up of non-performing loans (Goldstein, 1998: 7; Alba et al, 1999: 20). In the corporate sector, the problems are over investment, declining profitability and excessive borrowing of short-term foreign loans under the government's implicit guarantees (Alba et al, 1999: 24; Claessens, Djankov and Lang, 1998a; Driffield and Pal, 2001). I shall now examine these problems in details.

Fragility in banking sector

Much of the analysis about banking sector vulnerabilities in East Asia starts with the surge of foreign capital inflows in the pre-crisis time, which was documented in a number of reports by many international organizations and scholars (see for example UNCTAD, 1992: 22; Thomsen, 1999; World Bank, 1993 among others). This dramatic increase of foreign capital was shaped by two reasons – one internal and one external. From the domestic perspective, policy regimes support these large capital inflows, which is an integrated part of the Asian development model (World Bank, 1993). These domestic policy regimes include a fixed exchange rate to US dollars and maintaining an interest rate higher than the world market rate (Lee, 1998: 20). Other factors include the lower labour costs, sizable current account and fiscal surplus, and a strong economic growth

performance that all contributed to the optimistic market expectations about the East Asian economies (Alba et al., 1999: 13). From global capitalism's perspective, the capital inflows to Asia, and to developing countries as a whole, were totally supply rather than demand driven. Due to oil prices skyrocketing in the 1970s, billions of dollars were deposited in international banks by OPEC countries that were seeking profitable investment. The elimination of restrictions on capital movements, accompanied by the wave of liberalization of trade and capital accounts in the 1980s helped to channel the funds flowing from industrial countries to developing countries (Bello et al., 2000: 3).

East Asian economies generally have a bank-dominated financial system with underdevelopment in equity and bond markets, which is criticized as not being sufficient to cope with the rapid and quick fluctuations of asset prices (Masuyama, 1999: 6). The surge of capital inflows poses a challenge on the Asian financial system in channelling these funds to the most productive sectors where the expected returns can be met. Problems derive from both the quantity of loans (i.e. over-lending) and the quality of the loans (i.e. non-performing loans).

Regarding the quantity of the loans, a number of scholars focus on the problem of "over-lending". Using a synthetic measure of the lending boom by calculating the rate of growth of bank lending as a percentage of GDP ratios, Corsetti, Pesenti and Roubini (1999a) argue there were sustained lending booms in the crisis-hit countries during the 1990s, especially in Philippines, Thailand and Malaysi. Corsetti, Pesenti and Roubini (1999c: 1222) argue the over-lending is driven by the presumption of implicit government guarantees which leads the international investors to under-estimated the

actual risk involved. Krugman (1998a) shows moral hazard in financial intermediaries can lead to serious over-investment at the aggregate level and contribute to asset bubbles. Similarly, Bhattacharya and Miller (1999: 372) point out the combination of poor regulation and widespread deposit insurance lead to over-lending, excessive investment and asset bubbles.

Prior to the crisis, East Asian countries saw a sharp credit expansion, combined with stable GDP growth rate and domestic savings rate. Lending growth outpaced growth in GDP and domestic savings by substantial margins (table 3.1). In Thailand, the increase in domestic credit to private sector averaged over 113 per cent of GDP from 1990 to 1996, while annual GDP growth rate was down from 11.2 to 5.9 per cent. Malaysia saw a sharp increase in credit expansion to over 100 per cent of GDP as well. All the countries had a higher credit/GDP ratio than the saving rate, indicating the Asian countries were relying more on the foreign capital in the 1990s.

The quantity of loans is considered to be “excessive” only when the loans are considered to be misused or what economists call “not performing”. This is regarding the quality of loans. The general idea is that increasing foreign capital inflows were improperly used with diminishing returns on investments. In the relevant literature, the problem of the low quality of Asian loans is demonstrated in two ways: first, the loans are channelled for speculation in the high risk stock and real estate sectors, rather than to the production sector; second is the increasing number of non-performing loans (NPLs) in Asian countries.

Scholars argue the bank-dominated financial system channelled most of the foreign borrowings to the high risk property and stock market, creating the asset bubbles (World Bank, 1998: 9; 1999a: 67; Nidhiprabha, 1998: 216; Collyns and Senhadji, 2002; Koh et al, 2005). As Sachs and Woo (2000: 23) noticed, that “too much money was poured into speculative real estate projects, e.g., in downtown Bangkok.”

In order to illustrate the problem, data is used from many studies. In Malaysia, the share of bank credit to the property sector rose from 8.8 per cent in 1966-70 to 33.5 per cent in 1986-90, before it dropped slightly to 30.5 per cent in 1990-96. This is in contrast with the bank credit to manufacturing sector, which increased modestly from 20.1 in 1986-90 to 22.6 per cent in 1990-96 (Chin and Jomo, 2003: 111). Similarly, property in Indonesia is estimated to account for 25-30 per cent of total bank loans and in Thailand is 30-40 per cent (World Bank, 1999a: 67). Corsetti, Pesenti and Roubini (1999a) show very high property exposure in Hong Kong, Malaysia, Singapore and Thailand, ranging from 30 to 40 per cent of the total loans, while it is relatively low in the Philippines and Korea (from 15 to 25 per cent).

However, different datasets show mixed results for this argument. Data from the Bank of Thailand online database show a stable sectoral distribution of banks loans from 1990 to 1997, with commercial loans to real estate taking up about 10 per cent of total loans. It does not quite indicate a dramatic bank loan surge into real estate sector in Thailand (figure 3.1).

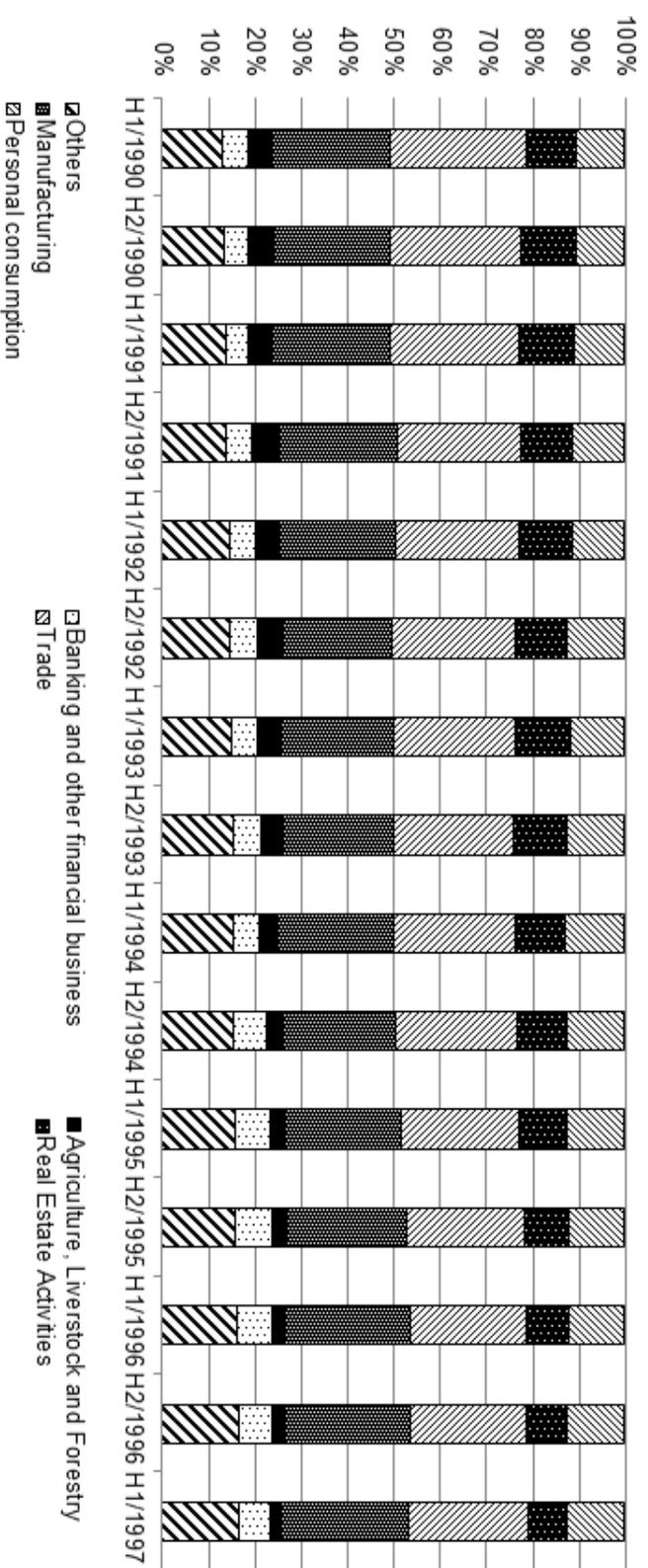
This is in consistent with the data adopted in Radelet and Sachs (1998: 37), which also

Table 3.1 Growth of bank lending, % of GDP

	1990	1991	1992	1993	1994	1995	1996	1997
Korea								
Domestic credit to private sector	62.8	62.5	61.2	61.4	62.2	61.2	65.0	72.7
GDP growth (annual %)	9.2	9.4	5.9	6.1	8.5	9.2	7.0	4.7
Gross domestic savings	36.4	37.1	36.1	36.1	36.2	36.6	35.4	35.4
Thailand								
Domestic credit to private sector	83.4	89.1	98.5	111.4	127.7	139.8	147.2	165.7
GDP growth (annual %)	11.2	8.6	8.1	8.3	9.0	9.2	5.9	-1.4
Gross domestic savings	33.8	36.3	36.0	35.8	35.4	35.4	35.5	35.1
Indonesia								
Domestic credit to private sector	46.9	46.2	45.5	49.0	51.9	53.5	55.5	60.8
GDP growth (annual %)	9.0	8.9	7.2	7.3	7.5	8.4	7.6	4.7
Gross domestic savings	32.3	33.2	33.4	32.5	32.2	30.6	30.1	31.5
Malaysia								
Domestic credit to private sector	69.4	73.8	108.5	106.5	109.2	124.4	141.6	158.4
GDP growth (annual %)	9.0	9.5	8.9	9.9	9.2	9.8	10.0	7.3
Gross domestic savings	34.5	34.1	36.7	39.1	39.6	39.7	42.9	43.9

Source: World Bank, World Development Indicators

Figure 3.1 Semi-annual commercial bank credits classified by type of business in Thailand, % of share



Source: Bank of Thailand online statistics

shows very small shifts in lending by the commercial banks in all the five crisis-affected countries, namely, Malaysia, Indonesia, South Korea, Thailand and the Philippines. Chin and Jomo, (2003: 111) argue property booms reflect the banks' preference to make loans for short-term high rates of return, rather than for long-term productive investment. However, data in table 3.1 and in Radelet and Sachs (1998: 37) suggest only a moderate lending shift from manufacturing to the real estate sector. But as Radelet and Sachs (1998: 36) mentioned, this data does not accurately reflect on the loan composition, since a borrower could claim to use a loan for expanding manufacturing by buying a property or equity shares. Alba et al. (1999: 24) also points out that the data on real-estate lending probably under-estimates the exposure of the banking system to the real-estate sector as loans to developers are not classified as lending for real-estate.

If the banking crisis was indeed triggered by the burst of price bubble in stock and real estate markets, a "boom-bust cycle" should exist in the Asian asset markets during the crisis. That is, as Krugman (1998a) argues, the stock and land prices soared, then plunged. While Krugman (1998a) does not include any data to support his argument, the data shown in figure 3.2 and 3.4 actually give a mixed result for this argument. For all three crisis-affected countries, the dramatic increase in stock prices occurred in the second half of the 1980s, then began to fall in the mid of the 1990s. The "boom-bust cycle" in stock prices is more apparent in Thailand and perhaps in Korea to a less extent, but not in Indonesia (figure 3.2).

Comparing to the stock prices, there is an apparent lack of increase in land prices prior to the crisis to build up the economic bubbles, especially for Korea where the land price was

extremely stable in the 1990s (figure 3.3). This is also noted by OECD (1999a: 30), pointing out that land prices in Korea, after rising at a rapid pace in the second half of 1980s, were basically stable in the 1990s prior to the crisis and foreign borrowing primarily financed the expansion of industrial capacity (rather than financing the real estate bubbles). Radelet and Sachs (1998: 38) conclude that, in both stock and real estate markets, the “boom-bust cycle” seems to fit the feature of the crisis in Thailand, to a less degree in Korea, but not in Indonesia.

The low quality of bank loans can also be demonstrated by the increasing non-performing loans (NPLs), which have been noted by various scholars (Corsetti, Pesenti and Roubini, 1999a: 331; Burnside, Eichenbaum and Rebelo, 1999; Alba et al., 1999: 51-52). To illustrate the problem of NPLs in the Asian region, a number of authors compare the level of NPLs before and after the crisis in the manner of both a time-series comparison and cross-country comparison. A common problem here is that NPL data is “estimated” according to different standards by different agencies. The data adopted in different researches show great divergence regarding the problem. For the pre-crisis NPLs, a frequently adopted dataset is constituted by the Bank for International Settlements (BIS) (table 3.2) and that for the post-crisis NPLs is constituted by the various international investment banks which are quoted in Goldstein (1998: 10) (table 3.3). Studies that used these dataset include Choe and Jung (2002: 30), Corsetti, Pesenti and Roubini (1999a: 331), Hussain and Wihlborg (1999: 30), Koh et al. (2005), Thacher et al. (2007: 21) and Ariff and Skully (2004: 106).

According to BIS pre-crisis data (table 3.2), the Asian economies show a very low level

of NPLs, except the Indonesia. NPL in Korea was extremely low, which was actually lower than all the listed countries, including several Latin American countries, industrial countries and the Scandinavian countries. NPLs were high in Malaysia in the beginning of the 1990s but then declined dramatically to reach the level of Japan prior the crisis. Both the time-series comparison and cross-country comparison show no serious problems of NPLs in Asia before the crisis. All the East Asian economies experienced a slight decline in NPLs just before the crisis.

Thacher et al. (2007: 21) argues “substantial financial misreporting means that the pre-crisis NPL measures should be interpreted cautiously ... they are almost certainly underestimates.” Similarly, Hussain and Wihlborg (1999: 30) also argue the datasets provided by official agencies to the BIS underestimates the NPLs. These studies then start to analyse the problem of NPLs based on the data generated by international investment banks (table 3.3). Goldstein (1998: 10) summarized a number of studies quoting NPL data done by international investment banks. According to their data, all the East Asian economies had much higher levels of NPLs in 1997 and 1998, especially in the three hit hardest countries, namely, Korea, Thailand and Indonesia.

Studies analysing the Asian NPLs problem seem to believe either that the international investment banks know the Asian economies better than the local governments, so they can provide better data, or that the Asian governments’ data is not as credible as that provided by the investment banks. However, the data provided by the investment banks are post-crisis data, which do not necessarily reflect the question that the NPLs were the sign of banking vulnerability that could trigger a crisis. As Corsetti, Pesenti and Roubini

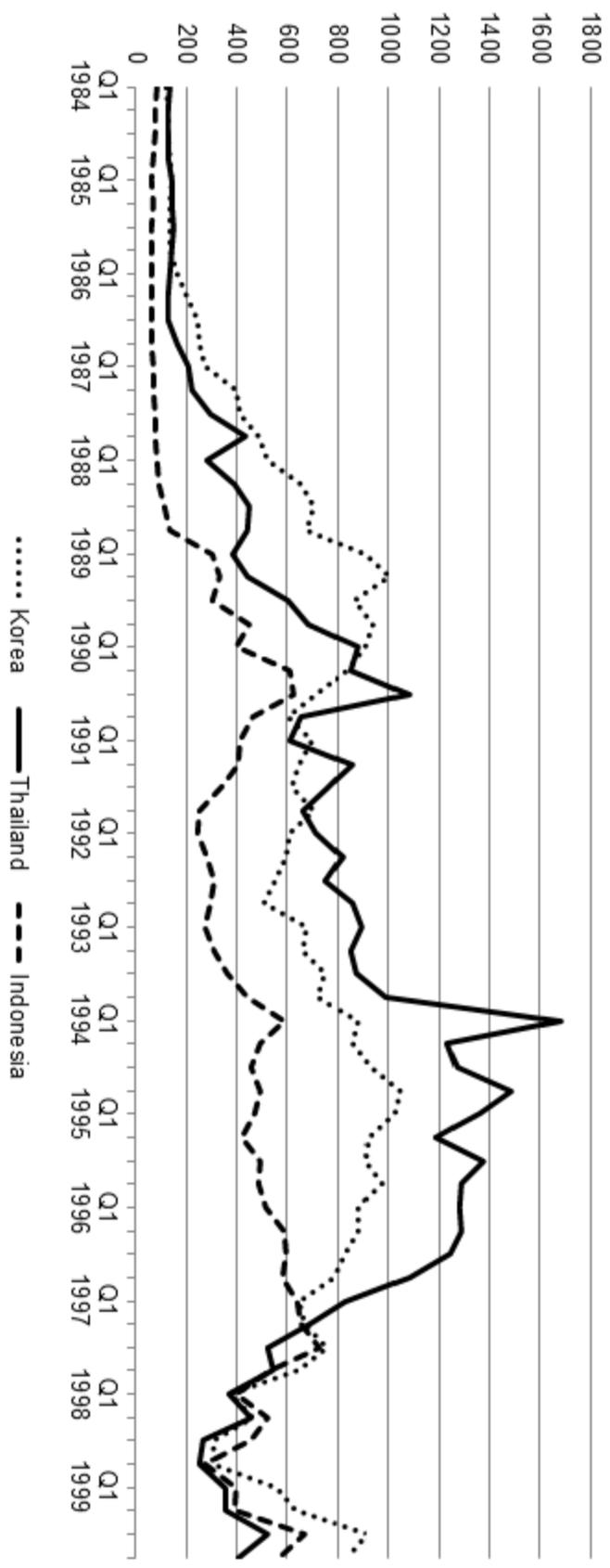
(1999a: 331) argue, since the 1997 crisis may have crippled otherwise healthy loans, it is appropriate to refer exclusively to data on nonperforming loans at the onset of the crisis.

Stiglitz (2002: 116) argues the NPL problem was actually exacerbated with the IMF stepping in to rescue the Asian economies because of the “triage” process involved in its financial restructuring – separating the really sick banks that needed to be closed immediately, from the healthy banks, by imposing the capital adequacy ratio. As most banks were experiencing trouble raising capital during the crisis, they could only meet that ratio by reducing outstanding loans. But as each banks call back their loans, companies are forced to cut back their production. The downward spiral is exacerbated and with more firms in distress, the problem of NPLs can even be worsened. Moreover, the bursting of stock price or property market bubbles can also attribute to the dramatic increase in NPLs in the crisis.

The analysis of NPLs using 1997-1998 data is not appropriate as the reason to look at NPLs is in examining the reasons for the crisis, rather than the consequences of the crisis. The low NPLs showing in the BIS data (table 3.2) give evidence that the Asian banks were doing fine within the “Asian development model”. With the common consensus that the problem of NPLs did exist in East Asia prior the crisis, the question remains as to how serious the NPL problem was and was it bad enough to trigger a crisis?

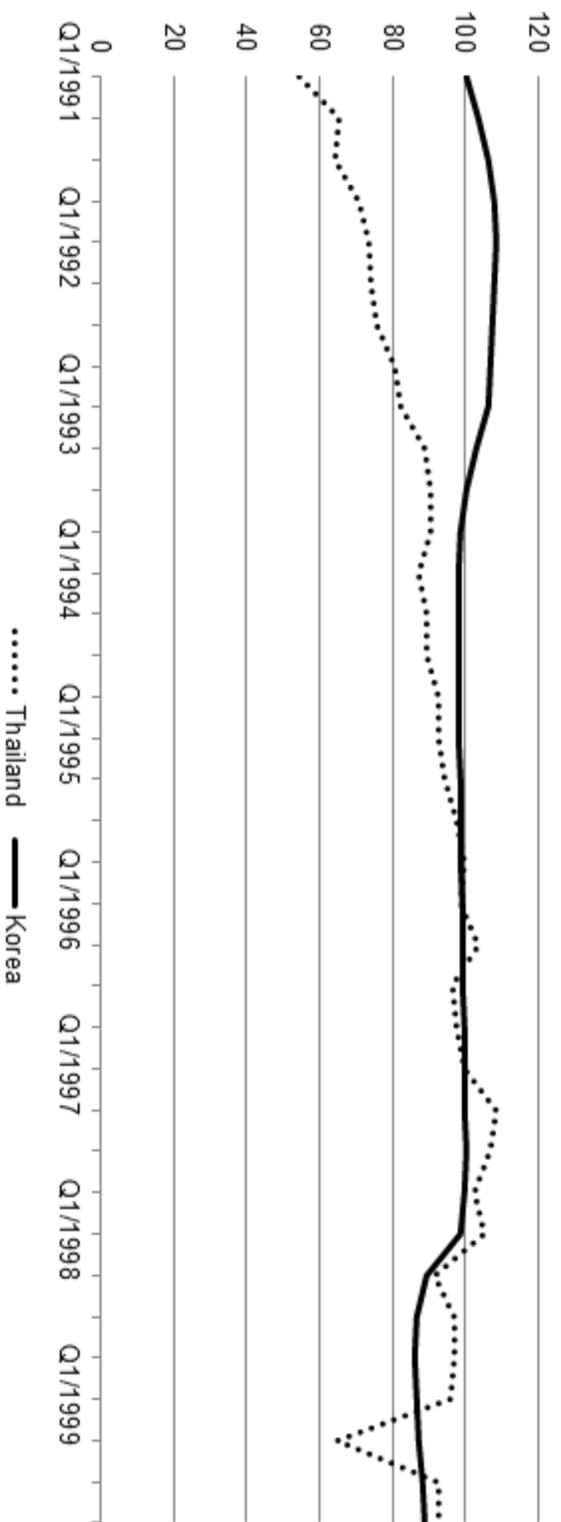
According to a number of authors, the reasons behind all these problems – the over-investment, large exposure to the property and equity market and the building-up of non-performing loans, are considered to be “crony capitalism”. Haggard (2000) provides

Figure 3.2 Quarterly stock prices in Thailand, South Korea and Indonesia, local currency index



Source: Thomson Datastream

Figure 3.3 Quarterly land prices in Thailand¹ and South Korea², index 1997Q1=100



Note: 1. Data converted from index 1991=100; 2. Data converted from floating rate
 Source: for Thailand, Bank of Thailand online statistics; for Korea, Bank of Korea

Table 3.2 BIS data on nonperforming loans as a % of total loans before crisis

	1990	1994	1995	1996
Hong Kong	-	3.4	2.8	2.7
Korea	2.1	1.0	0.9	0.8
Indonesia	4.5	12.0	10.4	8.8
Malaysia	20.4	8.1	5.5	3.9
Thailand	9.7	7.5	7.7	-
Argentina	16.0	8.6	12.3	9.4
Brazil	4.7	3.9	7.9	5.8
Chile	2.1	1.0	1.0	1.0
Colombia	2.2	3.1	3.8	4.6
Mexico	2.3	10.5	14.4	12.5
United States	3.3	1.9	1.3	1.1
Japan		3.3	3.3	3.4
Italy	5.2	8.1	9.3	10.1
Finland	8.0	4.6	3.9	2.7
Norway	9.1	5.4	4.1	3.2
Sweden	11.0	6.3	4.4	3.0

Source: Bank for International Settlements 1997 Annual Report

Table 3.3 Investment banks data on nonperforming loans

Study	Thailand	Korea	Indonesia	Malaysia	Philippines	Singapore	Hong Kong
Jardine Fleming (1997)							
PNPL/TL	19.3	-	16.8	15.6	13.4	3.8	-
PNPL/GDP	20.0	-	10.8	22.9	7.2	3.8	-
Romos (1998), Goldman Sachs							
ANPL/TL	18.0	14.0	9.0	6.0	3.0	2.0	2.0
PNPL/TL	>25	>25	>25	12-25	10-15	>8	>8
PNPL/GDP	40.0	34.0	16.0	17.0	7.0	9.0	13.0
Jen (1998), Morgan Stanley							
ANPL/TL	18.0	14.0	12.5	6.0	-	-	-
Peregine (1997)							
ANPL/TL	36.0	30.0	15.0	15.0	7.0	4.0	1.0
Eschweiler (1998), JP Morgan							
ANPL/TL	17.5	17.5	11.0	7.5	5.5	3.0	1.8

Note: PNPL: Peak nonperforming loans (1998-99); ANPL: Actual nonperforming loans (1997/98); TL: Total loans

Source: Goldstein (1998: 10)

considerable evidence of a moral hazard problem in the financial sector associated with several financial crises in Asia since the 1980s. The mismanagement of Bangkok Bank of Commerce (BBC) in Thailand, the powerful “Suharto connection” in Indonesia, the government support of local Bumiputera enterprises and banks in Malaysia and the extensive involvement of the Korean government in the banking sector and its key role in building up the large conglomerates (*chaebols*) all demonstrate the serious moral hazard problem in the region. Corsetti, Pesenti and Roubini (1999a) demonstrate a situation in which foreign creditors are even willing to lend to unprofitable projects, given the public guarantee of bail-out. Krugman (1998a) also argues the banking sector vulnerability was due to implicit government guarantees which lead to a “Pangloss” investment. In addition, the moral hazard view argues that the Asian banking sectors also have the problem of poor public disclosure and transparency, under-regulating and insufficient capital adequacy, which may lead to an inadequate evaluation of local banks and companies by international investors (Alba et al., 1999; Goldstein, 1998: 13).

Furman and Stiglitz (1998) argue several of the affected countries have statistical services that are far better than average within the developing world. While the “lack of transparency” hypothesis seems to suggest that lenders lent more than they would have, if they had been better informed about balance sheets, foreign exchange reserves and foreign debts, Wade (1998: 703) points out that in fact there were plenty of relevant information publicly available. For example, the BIS (1996a: 5; 1996b: 141) commentaries from early 1995 onwards stressed the build-up of short-term foreign debt. This argument has also been confirmed by Radelet and Sachs (1998) and Park (2006: 67), who conclude that although the lack of transparency as a problem in the Asian countries,

it was not the key factor precipitating the crisis.

Even if one accepts that the poor transparency and lack of available information truly exists, this cannot affect the international investors for two reasons. First, under the explicit and implicit government guarantee, international lenders have less worry to check the credit information of the domestic banks because they believe the government would never let the financial institutions fail. Secondly, investors probably either ignore the information or do not even care what information was available because they were just following the herd, so if the large banks were lending, that means their loans were guaranteed so they do not need any information about the local companies or banks (Park, 2006: 67).

While the “crony capitalism” was certainly a reality – the excesses of Thai financial companies, the Suharto family, the megalomaniac *chaebols* are undeniable, this explanation has come to seem inadequate to the task of explaining the severity of the event. Krugman (1999a: 462) points out that the moral hazard argument can be validated by the fact that there should be over-investment and excessive risk-taking by foreign investors with access to guaranteed finance, or that the availability of implicit guarantees should tend to crowd out “legitimate” investment that bears the full burden of risk, or one might still point to the severity of the problem of non-performing loans after the crisis as evidence that bad banking was a key problem in the crisis economies. But as many observers have noted, these were not in evidence. Radelet and Sachs (1998) found in the run-up to the crisis all forms of investment in the emerging Asian economies were booming, including foreign direct investment of purchasing equity and real estate, which

were clearly not protected by any form of implicit guarantee.

In the case of Korea, Chang, Park and Yoo (1998: 742) argue the “moral hazard” view is not applicable for three reasons. First, there has been no instance where Korean government has bailed out a failing *chaebol*, at least in the decades of 1980s and 1990s. Between 1990 and 1996 alone, three of the 30 biggest *chaebols* went bankrupt (i.e. Hanyang, Yoowon, and Woosung), and another six went bankrupt in 1997 (Kia, Hanbo, Sammi, Haitai, Jinro, and Halla). They argue the important point in relation to the moral hazard story is not whether some struggling enterprises have been helped out by the government (which they have), but whether or not bad management is punished, and as in Korea, the managers know that they will lose control over the enterprise if they fail to perform, so there is little room for moral hazard. Secondly, *chaebols* exposure to the non-bank financial institutions (NBFIs), such as the merchant banks, was high – something that would not happen if *chaebols* counted on government bail-outs, since it was generally accepted that NBFIs were themselves highly unlikely to be bailed out in cases of failure, given their greater freedom from government regulation and their small size. And thirdly, prior the crisis *chaebols* made their investments mainly in industries with stable returns, rather than “high risk, high return” industries, which those investors operating under moral hazard will prefer to choose.

The World Bank (1998) points out the bad loan problem was a consequence, not the causes of the crisis, as the problem emerged due to the severe recessions and currency depreciations that followed the collapse of capital inflows. Krugman (1999a: 462) continues to argue that since nobody expected a crisis of anything like this severity, the

prevalence of bad loans we observe ex post does not mean that anything like the same amount of bad lending was taking place ex ante.

The real meaning of the term “crony capitalism” in the orthodox thinking is ambiguous. If it means corruption and favouritism in close relationships between politicians and entrepreneurs, then these things happen all around the world. Evidence includes the cronyism of US capitalism, generated by the electoral finance regime (Wade and Veneroso, 1998: 7). As argued by Bhagwati (2004: 201), “it is indeed true that many of these leaders had cronies, but which politicians do not? Are President Suharto’s entourage “cronies”, whereas people at Bechtel and Halliburton are Vice President Dick Cheney’s “friends”? Are Barbra Streisand and Steven Spielberg President Clinton’s “friends”, while President Mahathir’s celebrity friends are his “cronies”? What is the difference?” On the other hand, the Scandinavian countries – Sweden, Norway and Finland, which were thought to be corruption free countries, were also unable to avoid a crisis in the early 1990s (Rodrik, 1999).

Krugman (2008: 96) and Furman and Stiglitz (1998: 7) argue while cronyism and corruption were very real in Asia, they were nothing new. The new emphasis on crony capitalism could lead to the belief that it became significantly worse than before. In fact, several measures of corruption suggested that the risk of corruption had declined or remained unchanged before the crisis (Park, 2006: 67). Furman and Stiglitz (1998: 59) found no evidence showing that corruption increased dramatically in the run-up to the crisis. Their assessment of “corruption risk” shows corruption was lowered in the 1990s for Indonesia and Korea, but rose after the onset of the crisis in Indonesia, Korea, and

Thailand, due to the reflection on economic performance. They further point out there is a plausible case for Indonesia that the exact opposite was true – the crisis may have been due to the expectation that corruption was going to be reduced, so that the connections to Suharto regime or favors might dry up, causing large outflow of capital (Furman and Stiglitz, 1998: 71).

All in all, there is little evidence that when the East Asian economies got hit by the crisis, they were experiencing the worst situation under the inefficiencies of a “crony capitalist” system that could bring the rapid growth to an end, and when the economy resurged, they were implementing various reforms that greatly improved the domestic weaknesses. In fact, the Demirguc-Kunt and Levine’s study (2001) shows that there had been a great deal of improvement in the soundness and efficiency of East Asian financial systems before the crisis.

Vulnerability in corporate sector

The discussion over the vulnerability in the corporate sector has been focused on the profitability, high leverage and moral hazard. A domestic weaknesses view maintains that the Asian corporate sector is combined with high investment and relatively low profitability, which is demonstrated by the increasing corporate leverage with diminishing returns on assets and slowdown in exports.

The pre-crisis high corporate leverage in East Asian countries has also been noted in a number of IMF reports (for example Kim and Stone, 1999) and the World Bank papers (Caprio, 1998; Pomerleano, 1998; World Bank, 1998). Kim and Stone (1999) and

Haggard (2000: 17) note the pre-crisis extent of corporate leverage in several East Asian countries was quite high by international standards, especially in Indonesia, Korea and Thailand. Kim and Stone (1999) argue a high leveraged corporate sector can magnify the impact of an abrupt pervasive cutoff of external credit on the real economy, and can cause large contractions on output, as seems to be the cause of the Asian crisis. Similar views can also be found in Kaminsky and Reinhart (1998) and Goldstein, Kaminsky and Reinhart (2000).

Claessens, Djankov, and Lang (1998a) examined the investment rate and the corporate leverage of East Asian companies. Their study shows that over the period of 1988-1996, the investment growth, measured as new dollar investments as a share of existing fixed assets, was highest in Indonesia, Korea and Thailand, up to 13%, and in some year even more. In Malaysia, Singapore and the Philippines the growth was about 10% and Hong Kong, Japan and Taiwan had growth in investment in fixed assets of about 8%, compared to 2.5% in Germany and 3.4% in the United States. High investment rates were accompanied by high corporate leverage, Corporate leverage, defined as total debt over equity, was high for many East Asian countries, much higher than in other developing countries and many developed countries. Some increase in leverage also occurred in the last few years leading to the crisis in Japan, Korea, Malaysia and Thailand.

An international comparison of debt-equity ratios is shown in table 3.4. The debt-equity ratio of Korean corporations was over 317 per cent by the end of 1996, twice the U.S. ratio, and four times the Taiwanese ratio. The top 30 Korean chaebols had even higher leverage, on average more than 400 per cent in 1996.

The World Bank (1998: 54) blames the export-oriented growth strategy and system of corporate finance for attributing to a high leverage financial structure of East Asian firms. Governments provided incentives to exporters, including directed credit, subsidized loans and tax benefits. Firms required massive resources to continuously upgrade technology and remain competitive in global markets. Retained earnings were insufficient to sustain such an ambitious strategy and equity markets were not well developed; as a result, firms borrowed heavily. Moreover, a lot of Asian family-dominated businesses who are concerned with ownership control will prefer debt financing over equity financing which may reduce power of control by separating the ownership (Chung, Lee and Jung, 1997: 62).

Table 3.4 International comparisons of average debt-equity ratios in the manufacturing sector, %

	1991	1992	1993	1994	1995	1996
Korea	307	319	295	303	287	317
Of which the 30 largest <i>chaebols</i>	403	426	398	403	388	450
US	147	168	175	167	160	154
Japan	209	202	202	196	196	187
Taiwan	98	93	88	87	86	

Source: Chang (1999:9)

The high leverage of Asian companies derives from the Asian development model. In fact, Wade and Veneroso (1998) have developed an argument that the Asian development has been based on a “high-debt” model that is not amenable to Western financial and cultural practices. The Asian savings were high, so banks had to lend. When neither households nor the government are significant net borrowers, the system is biased towards borrowing by firms. The high-debt model encourages and relies upon the close

links between banks and businesses, involving significant government direction and participation.

Park (2006: 68) argues that given the underdevelopment of equity markets and a bank-dominated financial system, it is only natural that the Asian corporations would have a higher debt-to-equity ratio than those in a capital market dominated financial system. While structural weaknesses are found in Asia's bank-based financial systems, the crisis does not prove that the Anglo-American market-oriented financial system is superior and more resilient to speculative attack (Demirguc-Kunt and Levine, 1999). Barth et al. (2000) show that there is no clear empirical evidence on which type of the financial structure – bank-oriented or market-oriented – are more likely to reduce the likelihood of a financial crisis.

A detailed review of Asian corporate performance and financing structures for 5,550 East Asian companies before the crisis was in Claessens, Djankov, and Lang (1998a). Using the firm-level data from annual reports of the companies listed on the major stock exchanges in the region and the *Worldscope* databases, Claessens, Djankov, and Lang (1998a) find the profitability, as measured by the real return on assets (ROA), the operational margin and the real sales growth, was much higher in East Asian economies than those in the industrial countries such as Germany and the United States over the period of 1990-96. However, in 1994-96 prior to the crisis, the profitability declined somewhat in several East Asian countries, especially in Japan and Korea. Haggard (2000: 18) notes that Thai and Indonesian companies saw declines in rates of return of nearly 30 per cent over the 1990s. South Korea saw a decline in returns on assets that was already

much lower than other countries in the region. Driffield and Pal (2001: 508) found the return on capital in many of the firms in the crisis-affected countries was very low. Largely relying on the domestic banks' lending, domestic companies, especially those in the "targeted industry" still enjoyed a high growth due to over-investment.

Krugman (1994) argues that Asian growth is based on expansion of inputs, rather than on growth in output per unit of input. In other words, the Asian growth is totally investment-driven, not by increases in total factor productivity (TFP), so that "if the capital piling up there is beginning to yield diminishing returns" (Krugman, 1994: 77). However, the empirical literature does not indicate a clear trend in TFP during the 1990s. Some studies, including Collins and Bosworth (1996) and Sarel (1997), actually indicate an increase for East Asia. A study by Asian Development Bank (Yoshitomi and ADBI Staff, 2003) suggests the growth rates of TFP in East and Southeast Asia were indeed higher than other developing countries and also higher than the United States in the 1970s and 1980s, implying the Asian countries were working towards the international best practice in production. The World Bank (2000c: 17) also suggests the East Asian economies managed to invest their saving productively, reflected by the higher returns on capital investment comparing to other developing countries.

With high leverage of the East Asian companies and their profitability in question, the ability to serve debt is critical. Analysts notice the high leverage and the declining profitability of East Asian firms led to a large increase in external financing needs. Therefore, a large amount of corporate debt was in foreign currency, US dollars primarily. Krugman (1998a) argues that part of Asian economic growth was based on foreign debt

and once this process become unsustainable, poor performance of the corporate sector would become apparent and their inability to serve foreign debt would become apparent. The Asian corporations' capacity to pay back foreign debt was reduced for three factors: high leverage, poor profitability and the declining export due to weakened demand in world markets.

The corporate sector's excessive borrowing compared with its declining earnings meant that an increasing share of profit went to cover interest costs. Both Thailand and Korea saw a dramatic increase of interest/profit ratio prior the crisis. By 1997, interest costs skyrocketed in relation to profits in Thailand, with more than two-thirds of all profits of listed Thai firms going to cover interest expenses. Korean firms had higher interest costs compared to other companies in the region, due to their traditionally higher leverage. But the interest cost increased to an even higher level in 1997 – more than 80 per cent of the profit in Korea firms went to cover the interest expenses (World Bank, 1998: 58 figure 4.5).

However, Chang, Park and Yoo (1998: 742) found Korea's post-interest-payments profitability was low owing to high corporate gearing, and this should not be interpreted as showing Korean corporate inefficiency, as Korea's corporate profitability before interest payments (measured by the ratio of "operating income" to sales) had not been low by international standards.

There was indeed heavy pressure for Asian companies to service the debt. The share of the companies whose interest expenses exceeded its profits had risen dramatically for

Thailand and Korea since 1995. This is especially true for the companies in the sectors with most foreign debts and fastest dropping profits, including the construction sector (with debt/equity ratio to 406 per cent in 1996) in Thailand and electronics industry in Korea (World Bank, 1998: 58 figure 4.8). Alba et al. (1999: 27) noticed, by the end of 1996, the median firm's interest coverage in Korea and Thailand was below investment-grade standards – that is, the median Standard and Poor's (S&P) single B firm in the USA during 1994-6.

Table 3.5 Annual export growth rates, %

	1994	1995	1996	1997
Hong Kong	11.9	14.8	4.0	4.0
Korea	16.8	30.3	3.7	5.0
Singapore	30.8	22.1	5.7	0
Taiwan	9.6	20.2	3.7	5.2
Indonesia	8.8	13.4	9.7	7.3
Malaysia	24.7	26.0	5.8	2.2
Philippines	20.0	31.6	16.7	22.9
Thailand	22.7	25.1	-1.3	3.2

Source: Das, 1999

The declining ability of servicing the foreign debt was not a result of declining corporate profitability but due to reduced earning in foreign currency in face of the slowing down export market. In any country with large amounts of external debt, made up of a large proportion of short-term debt, there would be greater sensitivity to changes in global financial conditions. Several international organizations have documented the slowing down of exports and increasing current account deficits in Asia since 1996 in their reports, including Asian Development Bank (Asian Development Outlook 1997 and 1998), Bank for International Settlements annual report (BIS, 1997), UNCTAD (Trade

and Development Report, 1997) and World Bank (World Development Report, 1997).

As shown in table 3.5, export growth has remained slow throughout the region since 1996, with the exception of the Philippines, Thailand was the worst affected, recording negative export growth in nominal terms in 1996, followed by Korea and Taiwan.

The slowing down of exports in Asia was taken to be the result of the changing international environment. This includes the weakened demand in industrial countries leading to a large fall in world trade growth, the depreciation of Japan's Yen against US dollars and the real exchange rate appreciations in some East Asian countries (as the Asian currency was pegged to US dollars) reversing the export competitiveness of many Asian economies, and the significant price drop for major export products in East Asian countries, such as semiconductors and other electronic products depressed the exports of Asian countries that are specialized in manufacturing these products (World Bank, 1998: 20; BIS, 1997: 40).

Corporate governance

A large number of orthodox economists pin these corporate problems on the poor corporate governance, for example Stiglitz (1998), Harvey and Roper (1999) and Greenspan (1999), Joh (2004), Alba, Claessens and Djankov (1998) and Mitton (2002) among others. Problems in the Asian corporate governance model that are often mentioned in this literature include the highly concentrated ownership, weak legal and regulatory systems to protect minority shareholders, weak market incentives, poor disclosure and accounting practices, close government/bank and business relationships

etc. Among these, the most serious problem in Asian corporate governance is thought to be the concentrated ownership and family controlled business (OECD, 2001a; Claessens, Djankov and Lang, 1998b; Capulong, Edwards and Zhuang, 2001).

One thing that is obvious, is that the companies in East Asian economies have far more concentrated ownership compared to those in the industrial countries, such as United States, the United Kingdom, and Japan (figure 3.4). According to La Porta et al. (1998), the average ownership of the three largest shareholders among the 10 largest publicly traded companies in Asian economies reaches nearly half of total shares. Korea's ownership concentration (23 per cent) is similar to that of the industrial countries. La Porta et al. (1998) argues the figure does not take into account shareholder affiliation and cross shareholdings between firms and the pyramidal structures that corporate shareholders themselves have owners, so will almost certainly underestimate the true concentration. Capulong, Edwards and Zhuang (2001: 74) argue that the ownership of most Korean listed firms is highly concentrated. Founding families are mostly still the largest shareholders and, more importantly, a pyramidal structure of corporate ownership is prevalent. Chung, Lee and Jung (1997: 61) and Joh and Kim (2003: 108) stress the interlocking ownership structure of the Korean *chaebols*. They argue that in Korea, families that run *chaebols* own less than 50 per cent of related companies, but they have almost total control over the combined business groups. Interlocking ownership allows them to control related companies with little equity of their own, with each member company holding every other member company's shares.

Claessens, Djankov and Lang (1998b) find large family control in more than half of East

Asian corporations. On the individual basis, corporations in Japan are generally widely-held and corporations in Indonesia and Thailand are mainly family-controlled, while state-control is significant in Indonesia, Korea, Malaysia, Singapore, and Thailand.

In a report by the Asian Development Bank, Capulong, Edwards and Zhuang (2001) offer a detailed view about the company ownership in Korea, Thailand, Indonesia and the Philippines. They find the five largest shareholders owned an average of 68.9 per cent of total outstanding shares of publicly listed companies during 1993-1997 in Indonesia, where the single largest shareholder owns an average of 48.6 per cent. The pattern of ownership concentration changed little over the period. They also show that between 1993 and 1997, about two thirds of publicly listed companies' outstanding shares were owned by corporations that were directly or indirectly controlled by families. When a company goes public, the founder usually continues to own the majority of shares through a fully-owned limited liability company. Thus the founder keeps the proportion of shares necessary to retain control over management of the listed firm. Most of the five largest owners of Indonesian publicly listed companies are limited liability companies rather than individuals. This is confirmed by the work of Claessens, Djankov and Lang (1998b), which shows that in 1996, two thirds (67.1 per cent) of Indonesian publicly listed companies were in family hands, and only 0.6 per cent were widely held.

In the Philippines, public listing rules of the Philippine Stock Exchange require that a minimum of 10 to 20 per cent of outstanding shares, depending on the size of the company, must be available for trading in the stock exchange. As companies usually only issue the minimum required number of shares, large blocs of controlling shareholders

often dominate corporate decision making in publicly listed companies. The largest shareholder owned 40.8 per cent of the market value of an average nonfinancial company in 1997. The shareholding of the top shareholder varied across sectors, with the highest being 54.8 per cent for the property sector (Capulong, Edwards and Zhuang, 2001: 172).

In Thailand, between 1990 and 1998, the top five shareholders of each of the publicly listed Thai companies held, on average, 56.4 per cent of outstanding shares, with the top three shareholders accounting for almost 50 per cent. This implies that the top five shareholders enjoyed full control over the outcomes of shareholder meetings. Across industries, there were only slight variations in the pattern. Ownership was most concentrated in the packaging, agribusiness, and building and furnishing industries, with a top-five ownership concentration of at least 60 per cent (Capulong, Edwards and Zhuang, 2001: 242).

The composition of controlling shareholders shows that affiliated corporations comprise the largest group among the top five shareholders of publicly listed companies, owning 26.7 per cent of outstanding shares on average. It is the practice of Thai corporate founding families to set up holding companies to own shares in affiliated companies or subsidiaries. Through these holding companies, founding families maintain effective control of entire groups, including those that are publicly listed on the Stock Exchange of Thailand (Capulong, Edwards and Zhuang, 2001: 242).

This is also confirmed in OECD (2001a: 93), which shows that through holding companies, individual and family shareholders in Thailand own more than 60% of

corporations while banks and institutional investors do not directly own a large block non-financial firm.

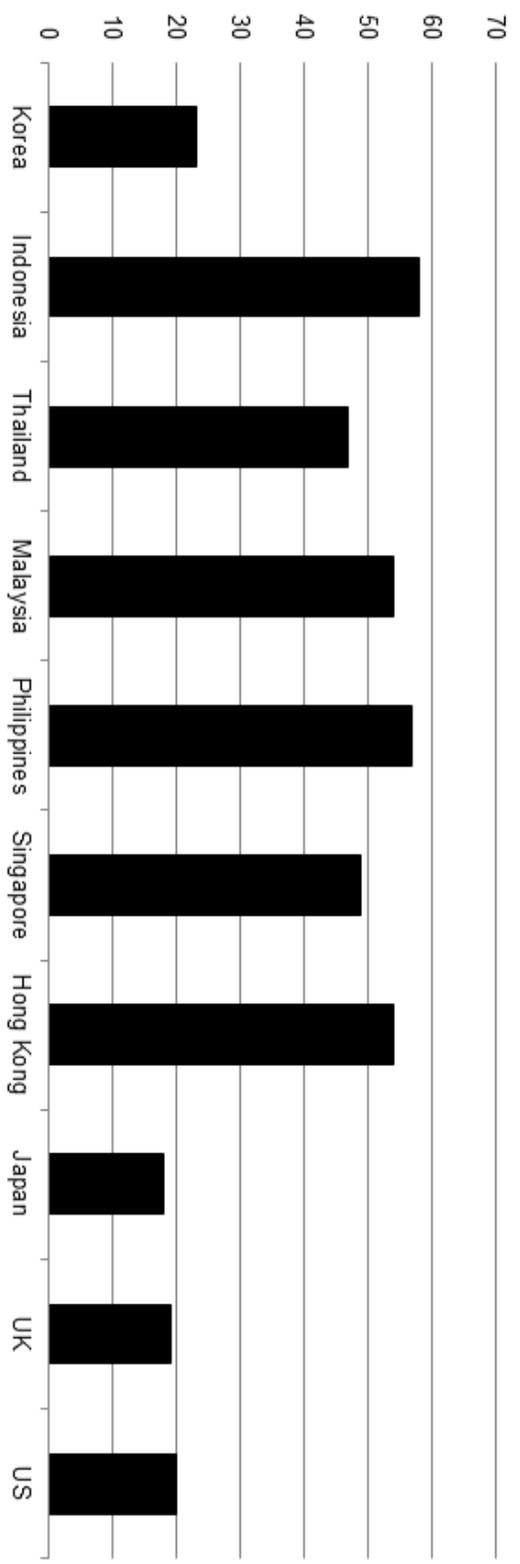
Given this highly concentrated ownership in East Asian corporations, and the fact that presumably, family shareholders should be focusing increasing profitability on their own family holdings, then why did profitability drops before the crisis? As Prowse (1998: 21) argues, while large shareholders in Germany and Japan are often criticized for being too weak in protecting their own interests, large family shareholders in East Asia are, no doubt, highly motivated to maximize the returns on their family holdings, if need be at the expense of outsider investors. The low profitability in East Asian companies prior the crisis seems to contradict this argument, especially in Korean *chaebols* where the return on assets were strikingly poor.

Joh and Kim (2003) test the relationship of the corporate performance and the corporate governance structure, as measured by the controlling shareholder's ownership concentration in Korea firms from 1993 to 1997. They found a "robust" relationship between ownership concentration and profitability and productivity – higher ownership concentration is associated with stronger company performance. However, their data does not differentiate the "direct" control from the "ultimate" control. Because of the interlocking ownership in Korean companies, a lot of companies are *chaebol*-affiliated. Joh and Kim (2003) indeed find a negative impact of *chaebol* affiliation on corporate performance. In these *chaebol*-affiliated companies controlled by large families, the controlling shareholders do not have adequate ownership stakes in the companies they control, so the incentive of expropriation is greater.

The family controlled firms in Asia are also highly diversified. The unrelated diversification is most prevalent in Korea (Jung, 1991) and in Thailand (Alba et al., 1999). In 1994, the number of affiliated companies for the top five Korean *chaebols* averaged about 40, with a total of 210 companies. The top 30 *chaebols* had some 616 affiliated companies (Woo-Cumings, 1999b: 24). Almost all Korean *chaebols* began in the 1960s when Korea was in a phase of export-led, light-industrial production. In the early 1970s, under the state-directed “big push”, they began to develop heavy industries, including steel, chemicals, machine tools, automobiles, shipbuilding, and power-generation. By the 1980s, electronics had also become an important part of the *chaebol* expansion.

For Korea, Oh (2001) gives an important reason for diversification. Korean *chaebols* diversify in order to gain big business status because the government favours big business as the instrument of the nation’s economic development. Given that the government supports and protects big business from domestic and foreign competition and rescues them when they fail, *chaebols* expanded through diversification without any risk to themselves. Because of the “too-big-to-fail” belief, many companies expanded quickly through diversification and debt-financing. Other than focusing on increasing the profitability of their own family holdings, what family shareholders were more concerned about, besides efficiency or profitability, is the oligopolistic position. Given the government’s encouragement and implicit guarantee, the fact that *chaebols* were competing for expansion becomes understandable. Woo-cumings (2000) points out that heavily influenced by the Japanese family-owned economic conglomerates (the “zaibatsu”), the goal of the Korean *chaebol* is not high-market occupancy of one, two, or

Figure 3.4 International comparison of ownership concentration



Note: This table shows ownership of firms by large shareholders. It shows the average percentage of common shares owned by the 3 largest shareholders in the 10 largest non-financial, privately-owned domestic firms in a given country. A firm is considered privately owned if the state is not a known shareholder in it.
Source: La Porta et al. (1998)

a few related markets, but an oligopolistic position running the gamut of the modern sector of the economy.

What is more important is the efficiency of investment by diversified firms. Using company specific data, Claessens, Djankov and Lang (1998a) find a significant negative impact of diversification on short-term performance of the companies in Indonesia, Korea, Taiwan and Thailand and conclude that the misallocation-of-capital hypothesis is appropriate for Korea and Malaysia. Yu (1996: 39) finds that in 1994, out of Samsung's 50 affiliated firms, Hyundai's 49, LG's 53, Daewoo's 25, and Sunkyung's 33, only a few firms in a few sectors were contributing to the bulk of total sales. Samsung has only 3 firms that were responsible for 67 per cent of sales, and for Hyundai, 5 affiliated firms accounted for 70 per cent of total sales, for Daewoo, 4 firms accounted for 85 per cent of total sales. While the extensive diversification of *chaebols* has been criticized for failing to nurture "core competence", Woo-Cumings (2000: 31) argues there are also benefits of the diversification, such as the gains from economies of scale and the reduced risk by portfolio diversification. More importantly, he points out that the *chaebols* were not aspiring to win in all the sectors, but the incentive system pushed them in that direction, given that government protects domestic producers through residual industrial policy, especially by limiting foreign competition, and limits domestic competition through the system of "controlled competition".

Chung, Lee and Jung (1997: 59) point out as *chaebols* are becoming increasingly powerful, it raises concerns about their legitimacy and economic efficiency. Concentrated ownership can also lead to problems like empire building, undue risk-taking and a more

close relationship with financial institutions which creates risky investments, especially in developing countries, where the regulatory environment is ineffective and disclosure practices are weak. As Alba et al. (1999: 10) points out, regarding developing countries, controlling ownership may also lead to increased risk taking behaviour since other stakeholders such as creditors and employees share the same risks in bad times but not to the same degree in the benefits. The potential for this type of behaviour is greater if there are ownerships and/or family inter-relationships between banks and corporations, bank incentives are skewed towards risk taking, and bank supervision is inadequate. Under the weak legal and regulatory protection against abuse by corporate insiders, ownership concentration means that the investors would be better able to monitor and control management. Therefore these investors may pursue both empire-building strategies and other benefits of control and excessive risk-taking behaviour. Because of large political power, shareholders may try to delay improvements in disclosure and governance so they could get good control of the company and insider benefits.

There are also problems regarding the incomplete accounting standards and poor investor protection. Alba et al. (1999) gives strong evidence showing that the accounting practices in this region were not yet up to the international standards. Many of the accounting and auditing standards in the region are generally inconsistent with those issued by the International Accounting Standards Committee and need further improvement. One study by La Porta et al. (1998) drew up rankings according to four measures – the degrees of shareholders protection, creditor protection, accounting standards and judicial enforcement. The results of the study are hardly surprising, finding that shareholder protection is weaker in East Asia than in the industrial countries.

Given the fact that large shareholders are also the controllers/managers of Asian companies, Prowse (1998: 1) claims the corporate governance issue in Asia is not how outside financiers can control the actions of management (as it is in the Anglo-American model) but how outside financiers can exert control over big insider shareholders. He further points out that the extensive use of debt financing by East Asian firms did not increase the monitoring of large shareholders by banks because the controlling power of the banking sector was weakened by government influence which reduced incentives to ensure good governance practices, and the high ownership concentration creates the problem of “who monitors the monitor”.

These problems of corporate governance, and to a larger extent, the Asian way of doing business was put into question. Westerners have been remarkably consistent in the way they have discussed the problems they have seen in East Asia capitalism. Much of the mainstream economists blame the inefficient Asian corporate governance, again on “crony capitalism” – poor transparency, moral hazard, and failure of the rule of law etc., all characteristics considered ubiquitous throughout the region. The Asian corporate governance is depicted to be a “family-based corporate governance system”, under which “neither the banks nor the equity markets ultimately control the family business groups ... This can give rise to serious agency problems necessitating reforms” (Khan, 2003: 16). With regard to Korea’s corporate reforms, international demands come for better transparency and accountability, to reduce their reliance on debt financing, to sell off their “non-core” subsidiaries and to stop diversifying into unrelated fields and develop a governance system to enhance the power of minority shareholders and outside directors (Woo-Cumings, 2000: 1).

Many critics of Asian corporate governance are based on the comparison of the model to the Anglo-American model. The problems of Asian model are therefore derived from simply equating Asian corporate governance with the “ideal” type of Anglo-American business practice. For example, Rohwer (1996: 18) argues “the biggest flaw in the success stories of modern Asia – including Japan – has been their failure to develop the transparent and objective public institutions needed to run the more sophisticated societies and economies that their fabulous economic growth is producing.” In addition, Prowse (1999: 134) claims:

Market and regulatory institutions that play an important role in ensuring market discipline are relatively undeveloped in the East and South-East Asian countries. In a less evolved regulatory, legal and institutional environment, informational asymmetries are more severe, contracting costs are higher because standard practices have not yet developed, enforcement of contracts is more problematic because of weak courts, market participants and regulators are less experienced, and the economy itself is likely to be undergoing more rapid change than in developed countries. In such circumstances it is not surprising that the competitive environment is weaker and markets do not work as well as in the developed countries.

Corporate governance systems are complex and they vary across countries. Economists generalize several models from different corporate governance practices around the globe. In spite of some divergence, the corporate governance models can be broadly divided into the Anglo-American model, the continental Europe model represented by the Germany, and the Asian model represented by Japan (Woo-Cumings, 2000; Roche, 2005: 28; Kester, 1996). They differ greatly with each other.

Roche (2005: 29) argues the corporate governance model that characterizes continental Europe and Japan is an insider model, in which the control over the company is executed by a small number of significant shareholders structured in relatively closed networks and committees through planning and industrial policy mechanisms. These countries tend to have a less developed stock market and high concentration of owners. Under this model, special attention was paid to the relationship between the state and industry, in realizing long-term economic goals. Kester (1992) argues the Asian governance model is “contractual governance” that emphasizes on reducing transaction costs by building stable and long term business relationships among transaction companies. However, Woo-Cumings (2000: 2) argues the Asian model of corporate governance does not mean that all the Asian countries fall into the same category of the “contractual governance”. Woo-Cumings (2001: 347) distinguishes Northeast Asia from Southeast Asia and finds two highly distinctive patterns of corporate governance. The Northeast Asia model is shaped by Japan, which influences Taiwan, South Korea and the current leadership in China. The governance model in Southeast Asia is the Chinese business-practice model having roots at least for 150 years that is market-adaptive and has even greater differences from the Anglo-American model than the Japanese model does.

Chang and Park (2004: 49) characterize the Korean corporate governance system as a “state-controlled insider system”, in which the owners/managers of the *chaebols* are insulated from the influence of outside investors through an intricately developed system of inter-group shareholding. However, the system is fundamentally state-controlled, in the sense that the government exercises a strong influence on corporate investment decisions and mediates the change in corporate control, using industrial and financial

policy tools.

The Anglo-American way of doing business, in contrast, is an outsider model relying on outside independent board members to monitor managerial behaviour and keep it in check. This model stresses on the separation of ownership from control and shareholders tend not to be involved in management decisions or policies, while maintaining dispersed ownerships – a large number of shareholders each hold a small number of company shares (Roche, 2005: 29). Under this model, the good governance is virtually about holding corporate management accountable to the interests of shareholders, or reducing agency costs, relying heavily on formal, legal mechanisms to order business relationships among different parties (Kester, 1996: 108). The Anglo-American model also has its pros and cons. The outsider system is considered more accountable and less corrupt but it tends to generate policies focusing on short-term gains, that may not necessarily promote long-term company performance (Roche, 2005: 30).

On the question of which one is the ideal type of business practice, Woo-Cumings (2000: 4) argues that both the Asian and the Anglo-American model contain some advantages and are economically rational to solve the problem of coordination and control. Best business practice needs the formal shareholder protection from the Anglo-American model and the informal business ties in the Asian model that increase the competition ability of vertical company networks by sharing information and retaining excess capital (rather than returning to shareholders) to achieve long-term investment strategies.

Wong (2005) notices current constructs of international corporate governance rooted in

an idealized Anglo-American view. It is both influenced and shaped by the North American ethos. Moore (1993) argues the ideological nature of “governance” as a product and points to the doctrine of Anglo-American liberalism that dominates World Bank thinking. As a result, he believes, the governance experience of East Asian countries with successful economic performance “appears to be largely ignored” (Moore, 1993: 41) and he concludes “the World Bank is willing to ... keep a close eye on the state ... But it is unwilling to ... take state-building seriously and to provide equivalent resources to support political learning” (Moore, 1993: 49).

As argued by Hansmann and Kraakman (2001: 449), the corporate governance model is best exemplified in the US shareholder-oriented model, which is simply irresistible and “has emerged as the normative consensus”. Moreover, they claim “no important competitors to the standard model of corporate governance remain persuasive today ... the triumph of the shareholder-oriented model of the corporation over its principal competitors is now assured” (Hansmann and Kraakman, 2001: 468). However, this view is challenged by Bebchuk and Roe (1999), who argue despite globalization’s demands for ever-greater efficiency, key differences in corporate governance persists and even among the western advanced economies notions and practices of corporate governance differ in different business organizations. This is also confirmed by Turnbull (1997) and Moerland (1995).

Discussions of the Asian model are often around the debate of “state versus market”, which is the main difference between the “foundation” of Anglo-American model and the Asian model. To assume what is necessary to reform the Asian governance is directly an

adoption of Anglo-American international governance and regulatory systems, underestimates the distinctive cultural foundations of governance systems. Woo-Cumings (2000: 10) and Wong (2008) argue the issue of Asian corporate governance must be understood in time and place, and in historical and political context, because corporate governance depended on a host of country-specific circumstances, including legal, social, cultural, historical and institutional factors, and in the context of Asia it been seriously affected by these factors. Woo-Cumings (2000: 60) points out that during the miracle years, public good and private interests in the Asian region (and more specifically – Korea) are rolled together into one large complex that is bent on rapid industrial growth. The Asian governments adopted an interventionist approach to create and support the globally competitive companies through industrial policy and the primary task was focusing on development. Therefore, the Asian governments are likely to think of the whole issue, not in terms of legislating a new atmosphere in which the rule of law prevails, but in terms of what policy makes world-competitive firms. Asian countries have long been a “developmental” rather than “regulatory” political economy. To the contrary, at the root of the Western concern for regulation is a doctrine of fairness, of creating playing fields with equality and competitiveness. Woo-Cumings believes this mode of regulating the corporate sector is not likely to work in the near future, because the concept of regulation carries different meaning and intent in the Asian context.

Roche (2005) argues the insider system can minimize the potential for mismanagement and fraud because of the power and the incentive the insiders have. Moreover, because of the significant ownership and control rights, insiders tend to support decisions that will enhance a firm’s long-term performance as opposed to decisions designed to maximize

short-term gains. Compared to the dispersed owners in the Anglo-American model who tend to be interested in short-term profit maximization, this was viewed as the core of Japan's competitive edge (Woo-Cumings, 2000: 4). However, the Asian model has certain risks. Dominant owners may use their power to influence board decisions that may directly benefit them at the company's expense, or expropriate firm assets at the expense of minority shareholders. This is a significant risk in developing countries where minority shareholders do not enjoy legal rights.

While the sins of the Asian model are widely discussed, its coordination function including information sharing and a stable relationship for long-term business planning is often neglected. Stiglitz (2002: 91) argues that while there are academics who claim that the East Asian miracle was about to save heavily and invest well, this view misses the point – no other set of countries had managed to do both well and Asian government policies played an important role to accomplish both things simultaneously. Chang and Park (2004: 50) argue the most important role of government in the Korean corporate governance system is to minimize over-investment through various policy of ex ante investment coordination involving restrictions on entry, exit and capacity expansion, and the ex post facilitation of industrial and corporate restructuring including government mediation of merger and acquisitions, business swaps and market-sharing managements. In the state-controlled insider system, the *chaebols* have no need to worry about short-term profitability but they have pressure to deliver results in the long run, if they were to get continued government support. This was because of the government's ability to discipline bad-performers through credit controls, foreign exchange allocation and force to transfer corporate control (Amsden, 1989).

Chang and Park (2004: 50) point out that what made the Korean state-controlled governance system effective was not just the government control of financial resources and policy measures, but the widely spread view of *chaebols* as “social” entities that are an integral part of the national project of industrial development, not just merely the property of shareholders. Chang, Park and Yoo (1998), Jomo (1998) and Wade (1998) point out the implicit model of human activity in the Western corporate model is highly individualistic and fails to account for a socially contextual form of corporate behavior.

Chang, Park and Yoo (1998), Singh and Zammit (2006) and Stiglitz (1999) all conclude that Asian corporate governance was neither a main cause of the crisis, nor something that needs radical restructuring in the Anglo-American direction. It was not a great system by Western standards and it surely has certain problems, but it functioned very well for more than three decades and there was no evidence that it went particularly wrong in the run-up of the crisis and it cannot constitute a sufficient explanation of the crisis.

As Singh and Zammit (2006: 223) claim, to those who attribute the East Asian crisis to this Asian way of doing business, there are two immediate difficult questions. First, analysis must be drawn to explain not just the failure of the system, but its previous success. In other words, it needs to explain why a model that for so long was able to generate sustained industrialization and historically unprecedented growth then became the root cause of an unanticipated and devastating economic crisis. Estanislao, Manzano and Pasadilla (2000) also argue that economic fundamentals in crisis countries, including government policies, may not have been satisfactory but the required corrections are not necessarily the reason that can trigger the crisis. Any explanation of the crisis must deal

jointly with the crisis and the region's remarkable performance and stability in the previous decade. Secondly, if the crisis is to be attributed to the Asian model, it is incumbent on the critics of the Asian model to explain the suddenness of the financial and economic crash. This has led to the scholars seeking for another explanation of the crisis – the financial panic.

The first problem is precisely that the orthodox economists, including the International Monetary Fund (IMF) and the World Bank had to address. The “Asian Miracle” gave neoliberals a hard task in seeking to reconcile the undeniable achievements of state intervention with the neoliberal thrust of the dominant Washington consensus. Wade (1996) documented the Japanese challenge to the World Bank and its core ideas about the role of the state in the strategy for economic development, demonstrated by the successful Asian economic development in the last three decades. Under the pressure of Japan and its willingness to pay for the project, the World Bank (1993) carried out a study – *“The East Asian Miracle: Economic Growth and Public Policy”*. While the Bank found it is difficult to reconcile the Asian experiences with its ‘market-friendly’ orthodox view based on the “Washington consensus”, the study attributes the Asian Miracle to the factor of “getting the fundamentals right”, including controlling inflation and maintaining competitive exchange rates, while deliberately underestimating the role of government.

When the crisis broke out, it was almost as if many of the region's critics were glad – their perspective has been vindicated (Stiglitz, 2002: 91). But they still had to explain the crisis. Not long before the crisis, the IMF had forecast strong growth and praised its good pupils – Thailand and Korea, for moving far down the road to full financial liberalization.

When Thailand approached the IMF for assistance after the collapse of the Baht in July 1997, the IMF was “busily rewriting the history”, saying that it had warned the Thai authorities all along (Bullard, Bello and Mallhotra, 1998: 507). Sachs (1998: 17) documented that:

[The] IMF arrived in Thailand in July filled with ostentatious declarations that all was wrong and that fundamental and immediate surgery was needed. Ironically, the ink was not even dry on the IMF’s 1997 annual report, which gave Thailand and its neighbours high marks on economic management!

While the role of the IMF and the World Bank in the Asian crisis will be discussed in the next chapter, the rest of this chapter will deal with the financial panic view of the crisis.

3.3 Liberalization, financial panics and the crisis

In contrast to the orthodox prescription that focusing purely on the domestic weaknesses, another notable explanation claim the cause of the crisis was external – the financial liberalization makes small economies helpless in the vulnerable global financial system that makes sharp capital flow reversals possible. The story goes like this: the financial liberalization and integration into the global financial system exposes East Asian economies to volatile short-term capital flows and induces policy changes that undermine the traditional mechanism of the Asia model that provides safeguards against a sudden change in capital flows. Then there was a market panic in investor sentiment, which reversed huge capital inflows to huge outflows, triggering the crisis.

In this line of thinking, the evolution of the Asian crisis starts from the mismanaged financial liberalization that speeds up dramatically in the 1990s. In a “traditional” Asian

financial system, the government controls all the internal and especially cross-border financial flows very tightly (Chang, 1993 for Korea; Schenk, 2007: 81 for Japan; Yang, 1998: 128 for Taiwan). The system can be characterized as bank-dominated capital market with heavy government controls, no free capital convertibility, and fixed, often dollar-pegged currency.

More attention had been paid to the benefits of financial liberalization since the financial deepening theory was proposed by Ronald I. McKinnon (1973) and Edward Shaw (1973) in the 1970s. Fry (1989: 14) notices that, in part due to the influence of McKinnon and Shaw, in developing countries governments have expressed commitments to improve the mobilization and allocation of domestic resources through financial development and liberalization, making various changes in the structure and operations of their financial systems. However, these changes had been modest in developing countries, notably in Asia, compared with changes that had taken place in most developed countries. In Korea, although there was series of financial liberalization in the 1980s, they were running an “erratic course” (Underhill and Zhang, 2005: 57) and those were “cautions and slow in terms of ... order and speed” (Park, 1996: 252). While the non-bank financial sector developed fast and entry barriers were lowered, the interest rate liberalization, police loan reduction and capital decontrol followed a slow and selective process in Korea. In the case of Taiwan, tight control of the financial sector and capital flows has been maintained until the end of 1980s (Underhill and Zhang, 2005: 58).

Several developing countries adopted the McKinnon-Shaw approach and implemented programmes of financial liberalization and reform since 1970s. Their liberalization shows

different results, especially between Asian and Latin American countries. While the gradual financial sector reform bridging the high investment and high saving in East Asian countries has created what is called a “virtuous circle of sustained economic growth” (Wong and Liu, 2002: 374), the financial liberalization experiments in Latin American countries have ended in disaster – characterized by severe financial crises that lead to “Good-bye financial repression, hello financial crash” (Dfaz-Alejandro, 1985). Fry (1989: 26) concludes this sharp divergence indicates the importance of the prerequisites for successful financial liberalization – the macroeconomic stability, adequate prudential supervision and regulation of the banks, as McKinnon (1986: 326) admits: “Successful liberalization is not simply a question of removing all regulations.”

This slow and cautionary liberalization process in Asia was dramatically changed in the 1990s. In 1993, the Kim Young Sam government in Korea abolished the practice of five-year planning, which had provided an overarching policy coordination framework since its introduction in 1962, and dismantled the selective industrial policy that had started in the late 1980s, in favour of the poorly constructed “100-day Plan for the New Economy”, a financial liberalization plan which is now regarded by many Korean people as little more than a publicity stunt (Chang, Park and Yoo, 1998: 739). The Kim Young Sam administration accelerated the liberalization process by promoting market opening and abolished foreign exchange control, in order to expedite the “globalization” of the Korean economy. One of the examples of the accelerated liberalization was that before the Kim Young Sam administration, there was a four-stage interest rate deregulation plan that the previous Roh Tae Woo announced in 1991. It was based on the principle of gradually changing from long-term to short-term rates, from the stock market to bank interest rates,

and from large- to small- denomination instruments. The Kim Young Sam administration accelerated this plan in a way that lacked a clear logic and deviated from what was formally announced before (Cho, 2001: 159). The financial deregulation was even implemented ahead of schedule in order to meet the requirement of becoming a member of OECD by the end of 1996 (Cho, 2001: 161). Most importantly, (Choi, 1993) notes the Kim Young Sam, administration liberalization includes, among other things, the capital account liberalization, something that Korea's previous plans for financial liberalization had characteristically failed to include.

While the orthodox free-market view holds that the Asian crisis had its roots in the extensive government interference with businesses, Chang, Park and Yoo (1998) claim the opposite – it was the dismantling of government control and the traditional mechanism of industrial policy and financial regulation through financial liberalization that generated the crisis. The theoretical discussion by Chang (1993; 1994) shows that one of the important functions of Korean industrial policy is that it provided an investment coordination mechanism that checked “excessive competition”, in order to control “overinvestment” and “social waste”. Illustrated by the case of Hanbo and Samsung, Chang, Park and Yoo (1998: 740) shows the seriously weakened industrial policy measures in the liberalization process has led to overinvestment, falling profitability owing to low capacity utilization and/or falling export prices, and eventually major corporate failures in a number of leading industries, including electronics (more specifically, semiconductors), cars, steel, petrochemicals, and shipbuilding. The high debt Korean model is also regarded as a problem to sustainable economic development by the Orthodoxists. With a comparison to the high debt-to-equity ratio of Japanese

manufacturing during its high-growth period, Chang, Park and Yoo (1998: 744) suggests that high corporate debt in Korea would not have produced a crisis, had it not been for the ill designed financial liberalization policy and the demise of industrial policy that led to overinvestment.

The real problem in relation to the high-debt Korean model was the large share of short-term debt. Wade (1998: 699) recorded the event that:

In October to December, Japanese, US and European bankers demanded full repayment of interest and principal from their Korean borrowers as short-term loans came due ... In mid-December the Koreans revealed that their short-term debt was nearly double what they had said just the previous week, or \$95 billion.

Chang, Park and Yoo (1998: 739) argue the large amount of short-term debt was the result of the liberalization process. First, liberalization in Korea was much more extensive in relation to short-term foreign borrowing than to long-term foreign borrowing, as contrary to short-term borrowers, those who were contracting long-term loans were required to meet stricter information requirements and obtain permission from the Ministry of Finance and the Economy (MOFE). Secondly, with the Kim government's commitment to financial liberalization, there were international expectations that Korea's credit rating would improve and international lending rates for Korean banks and companies would fall. On the other hand, uncertainties arose when different liberalization measures were announced step-by-step. Therefore, many Korean borrowers are encouraged to borrow foreign currency but at the same time, take a "wait and see" approach by continuously rolling over short-term loans rather than taking long-term ones,

an approach supported by the international lenders who were perfectly willing to roll over Korean loans until the onset of the crisis.

One of the consequences of the financial liberalization is that the Asian economies accumulated a large amount of short-term external debts. The ratio of short-term debts to reserves, as a rough measure of a country's ability to meet its current obligations from its own liquid resources, rose sharply from 1993 to 1997 (table 3.6). The problem of large short-term foreign exchange loans to Asian borrowers, and the problem of free capital mobility, were also noticed by Wade (1998) and Bhagwati (1998a). In fact, Eichengreen (1999) puts forward short-term debts as a major source of financial fragility and demonstrates short-term debts to reserve ratio is a robust predictor of financial crisis. In the three worst-hit countries, namely Korea, Thailand and Indonesia, short-term debts to reserve had risen to over 150 per cent by mid-1997.

Table 3.6 Short-term external debts as a % of foreign exchange reserves

	Indonesia	Korea	Malaysia	Philippines	Thailand
End-1993	171	148	28	52	89
Mid-1997	182	214	62	88	153

Source: Bank for International Settlements, Annual Report 1998

Many economists have pointed out the problem of currency mismatch – the accumulation of unhedged short-term foreign debt exceeding foreign reserves by a large margin and short-term foreign currency borrowing was increasingly used to finance long-term (Alba et al., 1999: 29; Bleakley and Cowan, 2004; Hamann, 1999: 9; UNESCAP, 2001: 16; World Bank, 1998: 54). Yu (2001: 15) noticed the East Asian countries worst hit by the financial crisis were those with heavy external debt accumulation. From the end of 1995

to June 1997, the sum total of short-term debts in Korea accounted for 68.2%, in Thailand 66.6%, in Indonesia 60.9%, and in Malaysia 52.2%. These countries clearly had too much short-term external debt, which they had to repay, together with the accrued interest, within one year. As Dani Rodrik (1998: 3) remarks:

Thailand and Indonesia would have been far better off restricting borrowing from abroad instead of encouraging it. Korea might just have avoided a run on its reserves if controls on short-term borrowing had kept its short-term exposure to foreign banks, say, at 30% rather than 70% of its liabilities.

The reason for the quick build-up in short-term debt is that, on one hand, most East Asian corporations and financial institutions had limited access to the long-term loans from international markets due to the lack of an investment rating on their bond or shares. On the other hand, the international investors control their loans in the short term, as a means of reducing the risks involved due to their doubts on the transparency and governance in the region (Rajan and Zingales, 1998).

More importantly, this short-term debt reflected the enthusiasm of international investors in expanding Asian investment (Wade and Veneroso, 1998: 9), and the fact that most capital inflows to Asia prior the crisis were in the form of portfolio investments or banking lending – the type of capital flows that were encouraged by capital account liberalization, rather than direct investment (UNCTAD, 1998a). World Bank (1998: 54) notes that:

Lenders and borrowers assumed that the fast economic growth would continue and that the exchange rate would remain stable; foreign lenders also ignored their own

prudential limits on lending to highly leveraged companies because East Asia was only a small share of their portfolio and they wanted the business. Foreign debt, mostly private and short term, rose and large unhedged positions developed.

In the case of Thailand, Ariff and Khalid (2000: 199) summarized the major financial sector reforms, and they found that the reform in Thailand indeed followed a gradual and well-planned manner, initiated in the 1970s and continued in the 1990s. By the time of the mid 1980s, Thailand, compared to its neighbours, already maintained relatively open current and capital accounts, with liberal treatment of foreign direct and portfolio investments, although exchange controls still applied to the repatriation of interest, dividends and principal of portfolio investment (Alba, Hernandez and Klingebiel, 1999: 17).

In 1990s, the Thai government conducted even more intensive financial liberalization reforms, including the total dismantling of interest rate controls, liberalizing current account transactions, relaxation of portfolio restrictions, promoting foreign direct investment by granting 100% foreign ownership of firms that export all their output, and gradually eliminating foreign exchange controls. By end of 1994, Thailand was free of foreign exchange restrictions on current account transactions, and had a very open and favourable regime for foreign investment (Alba, Hernandez and Klingebiel, 1999). The acceptance of Article VIII of the IMF Articles of Agreements was announced in 1990, when interest rate ceilings were abolished to enhance the efficient allocation of savings, and the capital account was opened, allowing the free flow of trade and investment transactions. Underlying these policy developments was the idea that the economy would grow more rapidly with minimum public intervention and a greater reliance on market

forces (Nidhiprabha, 2003: 27).

From 1991-92 some Thai firms were able to get dollar loans from international markets. The Bangkok International Banking Facility (BIBF), an offshore banking facility established in 1993, became the main channel for inflow of foreign loans and the access to foreign loans became significantly easier (Phongpaichit and Baker, 1999: 200; Alba, Hernandez and Klingebiel, 1999: 18; Nidhiprabha, 2003: 34). Newly established firms expanded very rapidly through their increased ability to get resources in the capital market. Often the growth of business size and the acquisition of assets were more important than cash flow and short-term profitability in securing access to successive new sources of capital (Handley, 1997).

Phongpaichit and Baker (2001a: 84; 1999: 197) notice that behind the Thai liberalization, there was a significant transfer of power over economic policy-making into the hands of technocrats, who were educated in the US and Japan and were drawn to free-market policies. They argued that the potential of the Thai economy was restricted by oligopolies and particularly by the power of the banking cartel. In 1991-93, they enthusiastically fell in with the World Bank/IMF project to liberalize financial markets. Tarrin Nimmanhaeminda, a US-educated professional who had had a meteoric career at the establishment Siam Commercial Bank, was appointed as the finance minister in 1992 to promote the policy of liberalization. Full capital convertibility was introduced, the role of the stock market greatly expanded, and the financial sector broadened.

But having liberalized the financial market, this alliance was unable to control the

economic and political consequences. Following capital account liberalization, portfolio and loan funds poured in, doubling the level of private sector foreign debt within two years, then doubling it again in another two years. At the same time, the technocrats lost control over economic management. From 1995, the cabinet was dominated by provincial business-politicians and new entrepreneurs, many of whom were made richer by the inflows (Handley, 1997), and none of whom had a background in economics. Technocrats who tried to impose restraint were removed, while others simply withdrew (Phongpaichit and Baker, 2001a: 85).

Nidhiprabha (2003: 33) and Phongpaichit and Baker (1999: 194) claim the deregulation and capital account convertibility in 1991-93 – carried out in the context of over-enthusiasm about Asia in the international financial markets – led to massive money inflows. In the absence of any policing of these inflows, a large proportion of the debt was denominated short-term (portfolio holdings and bank loans), and vulnerable to market sentiment.

Stiglitz (2002) gives a detailed discussion of over how the financial liberalization destroyed the traditional Asian governance mechanism and brings instability to the local economy. He first stresses that the successful East Asia economies in the miracle year were due to the fact that they opened themselves to the outside world slowly and in a sequenced way, such that “they dropped protective barriers carefully and systematically, phasing them out only when new jobs were created ... ensured that there was capital available for new jobs and enterprise creation, and they even took an entrepreneurial role in promoting new enterprise” (Stiglitz, 2002: 60). Stiglitz (2002: 65) continued to discuss

the potential risks of liberalization, particularly the capital account liberalization, such that:

[C]apital market liberalization entails stripping away the regulation intended to control the flow of hot money in and out of the country – short term loans and contracts that are usually no more than bets on exchange rate movements ... This speculative money cannot be used to ... create jobs, and such money makes long-term investment in a developing country less attractive ... there is a further problem: a mismatch of incentives. With capital market liberalization, it is firms in a country's private sector that get to decide whether to borrow short-term funds from the American banks, but it is the government that must accommodate itself, adding to its reserves if it wishes to maintain its prudential standing.

In another comprehensive evaluation of the effects of capital account liberalization in developing countries, Stiglitz et al. (2006: 175) conclude that while capital account liberalization can bring developing countries more sources of funds, and increases the welfare of domestic investors by diversifying the risks through investing abroad, the main problem with capital account liberalization is: "it brings instability", through market manipulation of capital flows including speculative flows, bank loans, portfolio flows and other financial derivatives.

Capital market liberalization, according to Camdessus (1998), enhances the countries' economic stability by allowing more diversification of sources of funding. Stiglitz (2002: 100) argues this makes no sense, and just to its contrary, it brings instability to Asia. Capital flows in Asia during a boom, exacerbating inflationary pressure and built up bubbles in the miracle years, then flowed out as the bankers ask for their money back, at the time the countries needed outside funds. Taking Thailand is an example, Stiglitz

(2002: 101) argues that speculative real estate lending by liberalization is a major source of economic instability:

Before liberalisation, Thailand had severe limitations on the extent to which banks could lend for speculative real estate. It had imposed these limits because it was a poor country that wanted to grow, and it believed that investing the country's scarce capital in manufacturing would both create jobs and enhance growth. ... The pattern is familiar: ...as real estate prices rise, banks feel they can lend more on the basis of the collateral; as investors see prices going up, they want to get in on the game before it's too late – and the bankers give them the money to do it. Real estate developers see quick profits by putting up new buildings, until excess capacity results. The developers can't rent their space, they default on their loans, and the bubble bursts.

Capital flows and panics

Through the above discussions, it is obvious that the Asian economy can be affected by financial liberalization in a variety of ways, by undermining the economic stability in the traditional Asian model and contributing to high short-term indebtedness, the large capital flows associated with market sentiment and speculations posed more risks. As Stiglitz (2002: 94) argues, the crisis in Korea followed a pattern of sudden capital reverses due to a self-fulfilling panic and the crisis in Thailand was attributed to the speculations and large short-term debts.

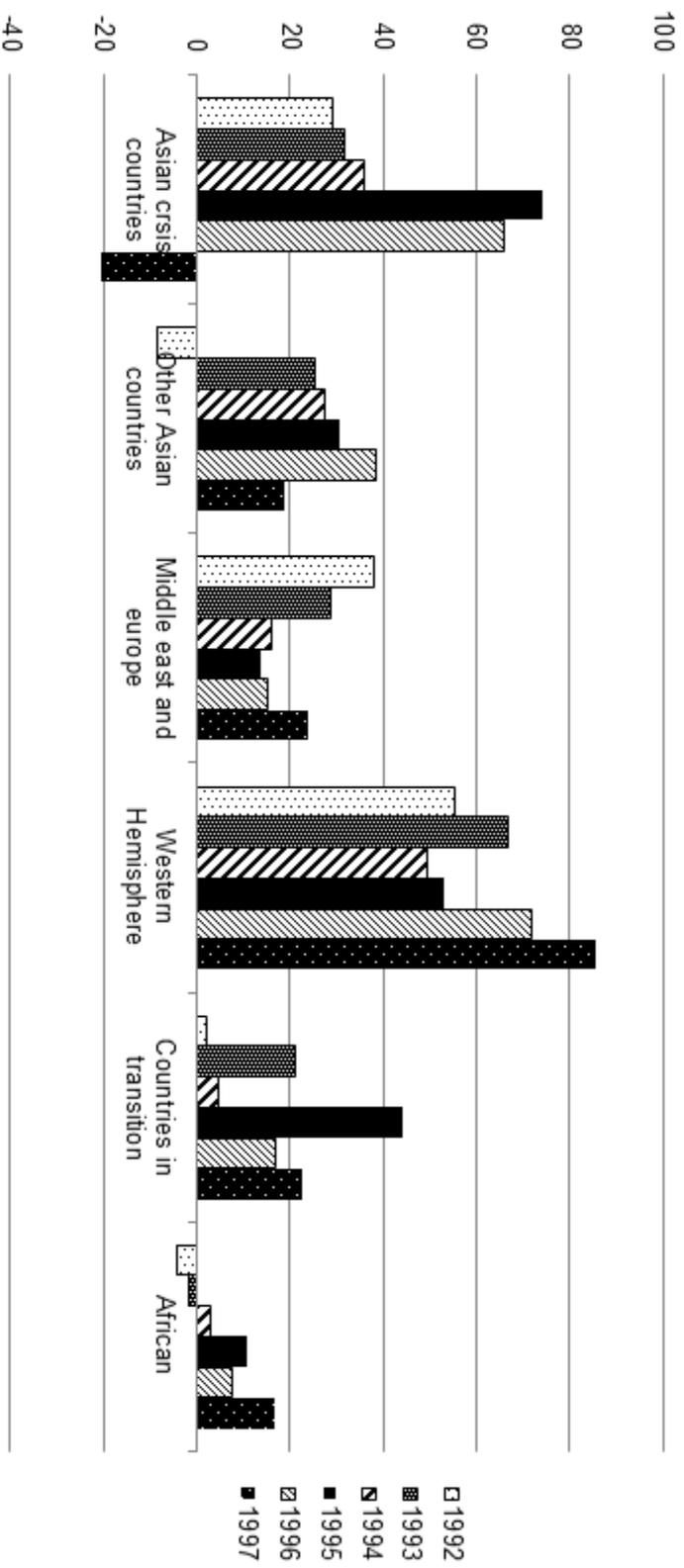
International comparisons show that the five crisis-affected countries received more capital inflows than other developing countries, especially in the previous two years leading up to the crisis (figure 3.5). The capital flowing to the five crisis-affected countries almost reached the level of that in the Western countries, peaking at 74.2 billion

US dollars in 1995, before a sudden reverse in absolute capital outflows in 1997.

If one reviews the long history of attracting investments by the Asian economies (figure 3.6), it is more obvious that in spite of the Asian governments' long effort to attract foreign investment starting in their initial development back in the 1970s, the real surge of capital inflows occurred in the 1990s, when East Asia had high savings rates and hardly needed additional funds, when it was already facing a daunting challenge in investing the savings well, and when it was fighting inflation and economic bubbles (Stiglitz, 2002: 67). The surge of capital inflows was reserved in 1997 for Indonesia and Thailand, and same thing happened to Korea a year later.

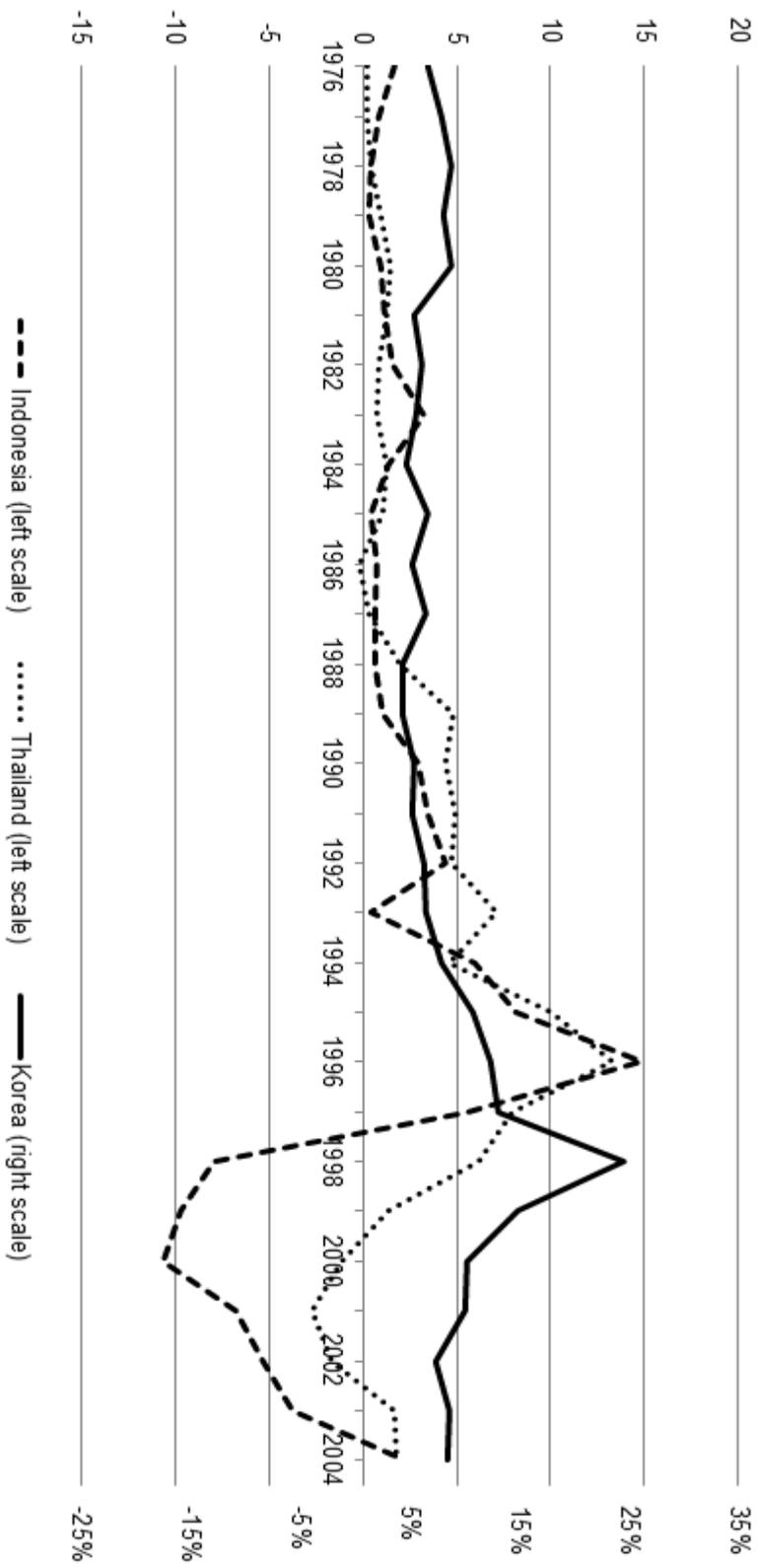
The examination of the financial accounts gives a clue of the composition of capital flowing into the three worst-hit countries (figure 3.7). The net capital flows were divided into three categories – foreign direct investment (FDI), portfolio investment and other flows, which is primarily bank lending. In the three worst-hit countries, it was clear that the surge in capital flows in the 1990s was due to the large increase in portfolio investment and bank lending, both of which are short-term investments encouraged by the financial liberalization. The private capital flow trend reflects a clear speculative nature of the foreign investment in Asia – large amount of money flows in the years of 1995 and 1996 and quickly flows out in the year of 1997 onward. For Korea, the foreign direct investment was roughly in balance throughout the last three decades and remains unchanged in 1998, while other investments show clear vulnerabilities in the crisis. All three types of capital flows were reversed to negative for Indonesia, indicating its changing role from a capital-importing country to capital-exporting country. This also

Figure 3.5 Net private capital flows of the crisis-affected countries*, US\$ billions



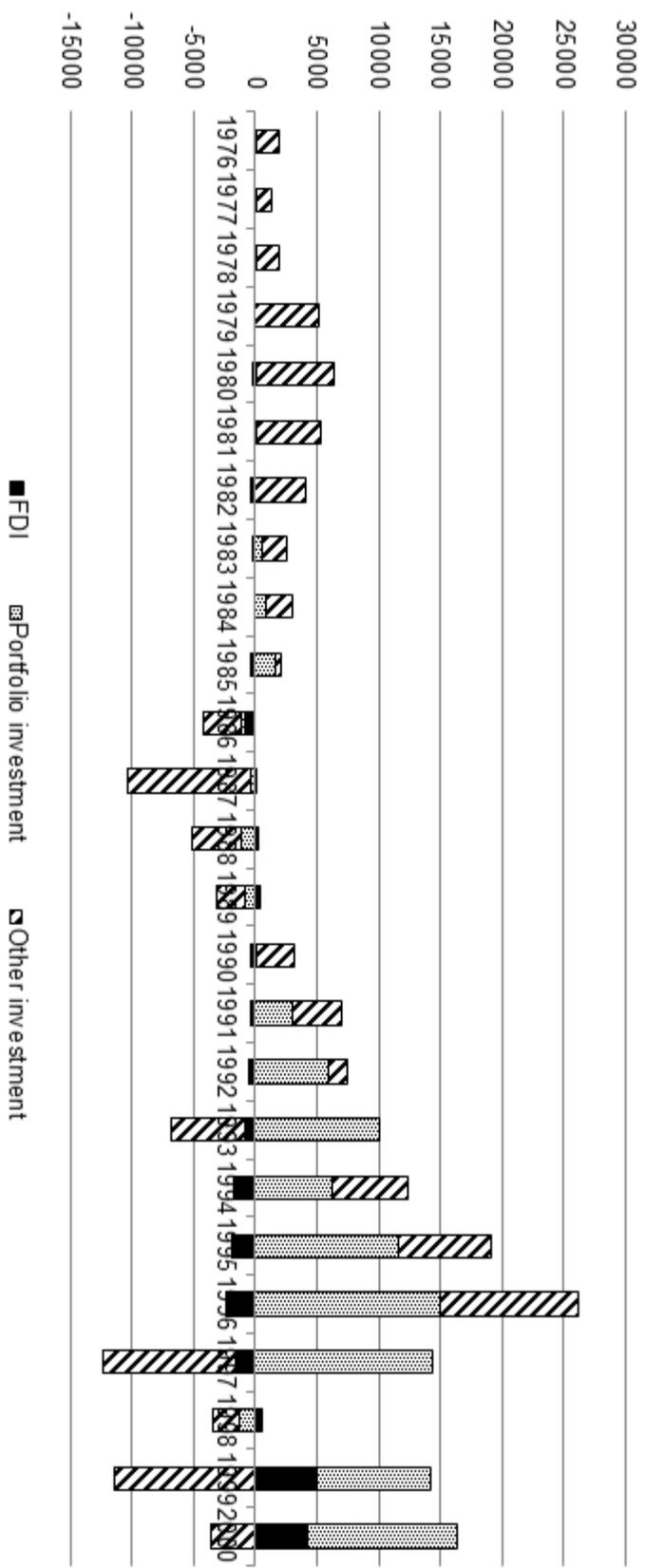
*Note: Countries include Indonesia, Korea, Malaysia, Thailand and the Philippines
 Source: IMF, World Economic Outlook, May 2000

Figure 3.6 Net private capital flows of Indonesia, South Korea and Thailand

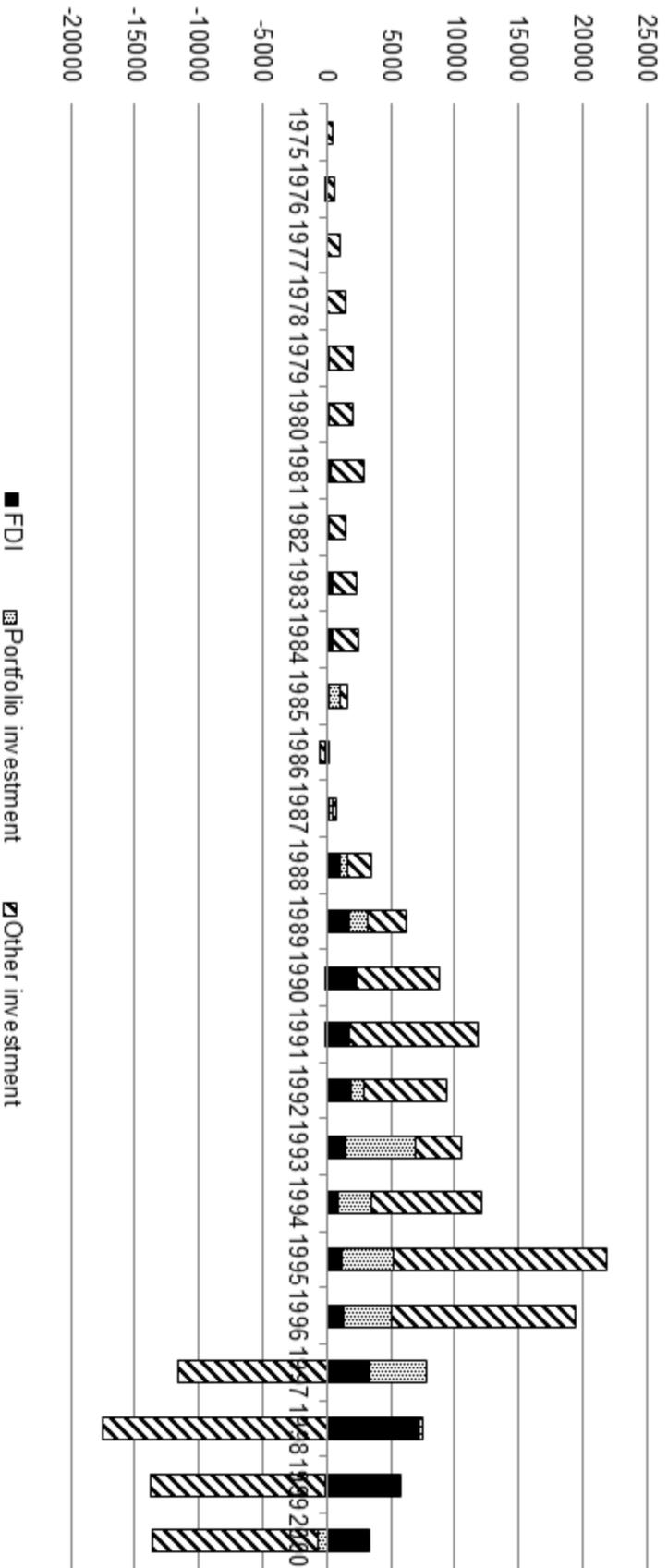


Note: for Indonesia and Thailand, figure shows private net capital flows in US\$ Billions; for Korea, it is the gross private capital flows as % of GDP
 Source: World Bank; Global Development Finance for Indonesia and Thailand, World Development Indicators for Korea.

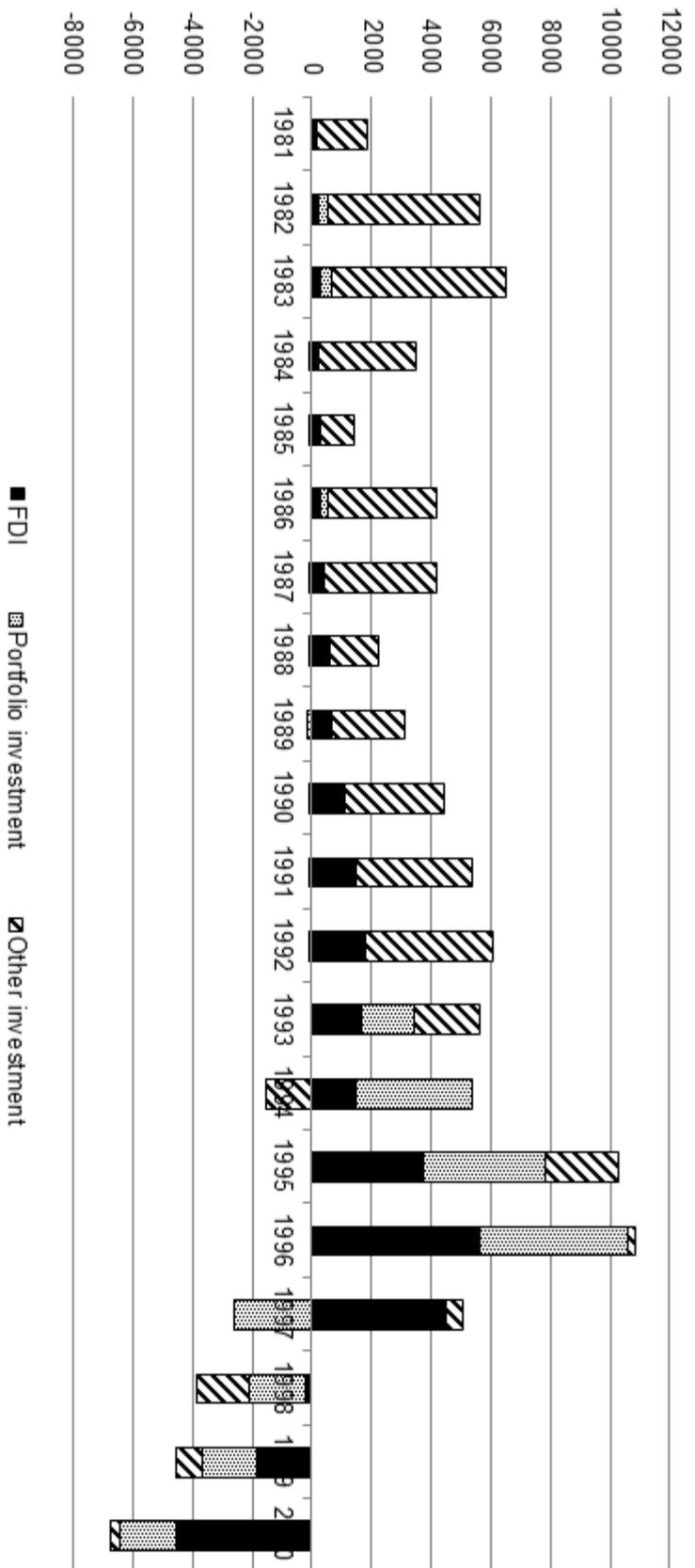
Figure 3.7 Net financial accounts, US\$ millions
 Panel A: Korea



Panel B: Thailand



Panel C: Indonesia



Source: IMF, BOPS database

justifies the previously discussed problem of the large amount short-term foreign exchange loans that was posed on Asian borrowers before the crisis.

Lindgren et al. (1999: 9) conclude that the capital flows in the 1990s in Asia were encouraged by high economic growth, low inflation, relatively healthy fiscal performance, financial sector and capital account liberalization, integration into global capital markets, formal or informal exchange rate pegs, and various incentives created by the government. These conditions remained unchanged in 1997, yet the capital inflows and the good reputation of the Asian market seemed to disappear overnight. Figures of capital flow movement clearly show that capital outflows, comparing to the unaltered long Asian history of capital attractions, were too sudden and too quick. As Furman and Stiglitz (1998: 6) point out, “In models that focus on vulnerability, it may not always be possible to explain the shocks.”

The shock in capital flows is better explained by the self-fulfilling financial panic view, which is put forward first by Radelet and Sachs (1998), and elaborated on by Krugman (2008), Furman and Stiglitz (1998) and Stiglitz (2002). In this view, the crisis was created and accentuated by unforeseeable financial panic from different players in the market and the government. The crisis was triggered by the sudden reverse of capital flows that were affected by dramatic sentiment change of investors’ expectation about the behaviour of other creditors, and this created a self-fulfilling (but individually rational) financial panic and liquidity crisis (Radelet and Sachs, 1998: 43). Joseph Stiglitz (1998: 94) describes the early unfolding of the Korean crisis as follows:

[W]hereas in the early days of its transformation it [the Korea] had tightly controlled its financial market, under pressure from the United States it had reluctantly allowed its firms to borrow abroad ... the firms exposed themselves to the vagaries of the international market: in late 1997, rumors flashed through Wall Street that Korea was in trouble ... Such rumors can be self-fulfilling prophecies ... Quickly, the banks which such a short time earlier were so eager to lend money to Korean firms decided not to roll over their loans ... their prophecy came true: Korea was in trouble.

Wade and Veneroso (1998: 9) claim the Asian crisis was doomed by a process of “investment-in” and “investment-out”, such that:

[O]ver the 1990s Western and Japanese banks and investment houses lent heavily to Asian companies, assuming fast growth (four times the OECD average) would continue, and consequently that exchange rates would remain stable ... Meanwhile, Asian governments undertook radical financial deregulation, encouraged by the IMF, the OECD, and by Western governments, banks and firms. They removed or loosened controls on companies’ foreign borrowings, abandoned coordination of borrowings and investments, and failed to strengthen bank supervision ... When, later, foreign lenders began to worry about currency falls, they “discovered” their heavy exposure to companies with debt/equity ratios far above their prudential limits. More exactly, they discovered the possibility that others might make a similar “discovery”, the aggregation of which would precipitate falls in the exchange rate – multiplying the loan burden and the risks of default. Hence they have tried in every way to call in their loans and not make new ones.

The self-fulfilling panic view is contradicted to the orthodox view in two ways. First, it considers the financial crisis was *primarily* triggered by investors’ confidence, rather than the domestic weaknesses maintained in the orthodox view. Even though the lack of confidence may depend on domestic weaknesses, it claims that the domestic weaknesses

are not new things and investors have noticed for a long time, yet they were still lending to Asian economies in the miracle years. Jagdish Bhagwati observes that the crisis-affected Asian economies had nothing wrong with their economic fundamentals but it was panic that reversed the huge capital inflows and the only explanation for massive capital outflow in a short time was panic (Bhagwati, 1998b).

Secondly, the panic view stresses that the Asian crisis was a liquidity crisis rather than a debt solvency crisis. After testing the relative strength of various risk indicators in predicting a financial crisis, Radelet and Sachs (1998) conclude that a high ratio of short-term debt to short-term assets, private credit to GDP ratio, and capital inflow to GDP proved statistically very significant in explaining the probability of a financial crisis. On the other hand, the economic fundamental indicators, such as the current account to GDP ratio were weakly significant and real exchange rate overvaluation was insignificant.

The liquidity crisis view was shared by some of the largest banks and financial institutions around the globe. The Financial Times article on the 30th December 1997, with the title “Global Bank’s Reaction to South Korea crisis” reports that “ ... The following statement was issued on behalf of Chase, Citibank, J.P. Morgan, Merrill Lynch, Banca Commerciale Italiana, Bank of Montreal, Bank of Tokyo-Mitsubishi, Deutsche Bank, First Chicago, HSBC Holding, Royal Bank of Canada, Société Générale and Swiss Bank Corporation ... The institutions attending share the view that the Korean economy is strong and that the present situation is due to a liquidity squeeze”.

Radelet and Sachs (1998) argue the primary reason for a liquidity crisis is a problem of

collective action. International investors were acting collectively and they were following a “herd” – that is, creditors act on the basis of the actions of other creditors, not on the basis of the debtor’s fundamentals. Individual creditors probably do not sufficiently have and cannot therefore make, choices based on the evaluation of market information. Their actions were based on the forecast of other creditors’ further actions, if he/she sees or feels other creditors would withdraw their money, a rational investor would follow. However, things seem to be rational to individuals are not irrational for the whole system. Winters (1998: 100) notes:

The chain reaction was set in motion by currency traders and managers of large pools of portfolio capital who operate under intense competitive pressures that cause them to behave in a manner that is objectively rational and destructive for the whole system, especially for the countries involved, but subjectively both rational and necessary for any hope of individual survival.

This “herding” behaviour was very clear in both the investment boom period and the time of fleeing investment. Wade and Veneroso (1998: 9) note before the crisis, “Investors ignored their own prudential limits on lending to companies with high debt/equity ratios, because everyone else was ignoring the limits and they each wanted to win business. International bankers have a powerful incentive to follow the herd, because the banker who does not make money where others are making it risks being seen as incompetent but does not suffer by making losses when everyone else is making losses too”, and later when they “discovered” things could go wrong and “More exactly, they discovered the possibility that others might make a similar ‘discovery’”, they called in their loans one after another.

3.4 Conclusion

In this chapter, two sides of the explanation of the financial crisis were examined, namely, the domestic-weakness view vis-à-vis the international capitalist instability view. Much evidence is found against the arguments of domestic weaknesses, especially the argument of crony capitalism and moral hazard, which cannot form a valid explanation for the crisis. However, the Asian development did form a high debt model in both banking and corporate sector, which is particularly vulnerable in an environment of increasingly opening to foreign capital market.

There can be little doubt that the international financial markets and capital flows are inherently unstable, capable of creating boom and bust cycles and fluctuations in exchange rates and asset prices, which can lead to real economic crisis with far-reaching consequences. There is no limit to the damage that international finance can bring onto an economy. This potential threat is much greater for developing countries for obvious reasons and this was clearly underestimated in East Asia.

Perhaps it is not possible to assign the exact proportion of responsibilities among international investors and the East Asian companies and governments for the financial crisis. However, one clear thing is that the successful Asian modern industrialization can be threatened by the way integration into the global economy is managed. This crisis shows the importance of conducting proper policies in managing integration and regulating capital flows. While the control and regulations can reduce some of the benefits of globalization and liberalization, it is not comparable to the domestic stability which is obviously the priority for economic policies. The perceptions of the cause of the

crisis would greatly affect one's opinion on the management of the crisis. To choose to believe one explanation of the crisis, over the other one, is a dangerous thing as it can lead to social miseries under a wrong way of dealing with the crisis, which is arguably done by the IMF. While the next chapter will discuss the IMF's remedy for the Asian crisis, the following work focus on the causes of the crisis.

Chapter 4 The IMF and its role in the Asian financial crisis

4.1 Introduction

Founded in 1944 at the Bretton Woods conference, the International Monetary Fund (IMF) was formed as an international effort to promote global economic stability; it would help its member countries to restore their balance-of-payments equilibrium under a gold-standard fixed-exchange “Bretton Woods” system in the post-World War II period (Fritz-Krockow and Ramlogan, 2007; Copeland, 2005: 24). The Purposes of the International Monetary Fund are set out in *Article 1* of its *Articles of Agreement*; they include: “(i) To promote exchange stability, to maintain orderly exchange arrangements among its members ... (v) providing them with opportunity to correct maladjustments in their balance of payments ... (vi) lessen the degree of disequilibrium in the international balances of payments of members.”

After the collapse of the Bretton Woods system in the 1970s, the economic agenda of the IMF has embraced its neoliberal interests to integrate and deregulate the market around the world. An important set of principles adopted by the IMF is the Washington Consensus that reflects the neoliberal ideas, and was formulated by economists at the World Bank, the U.S. Department of Treasury, and the IMF itself (Goldstein, 2007: 32). James Boughton (2002) – the official historian of the IMF, argues the power of IMF comes from the direct and indirect control it maintains over the granting of loans to governments experiencing balance of payment crises and having difficulty in serving foreign debts. Power is exercised through the conditions specified in stabilizing

adjustment programs that are imposed on to those countries that desperately need loans. Peet (2003: 101) also notes that since the 1970s, IMF conditionality has been based on an understanding of economies based on a version of neoliberal economics, or as Stiglitz (2002) calls it “market fundamentalism”. Boughton (2002) argues the increasingly free market nature of the conditionality attached to IMF loans has formed a “silent revolution” in economy policy-making – a subtle but ultimately dramatic drift towards policies that are “more corporative, outward oriented, and market friendly than before”.

The IMF has come under remarkable criticism in recent years (see, for example, Stiglitz, 2002; Sachs, 1998). Critics of the IMF argue it failed to accomplish two of its most generic purposes: the promotion of a stable financial system and to help the nations in crisis to resolve their macroeconomic problems. Stiglitz (2002: 15) claims:

A half century after its founding, it is clear that the IMF has failed in its mission ... in spite of IMF’s efforts ... crises around the world have been more frequent and deeper ... many of the policies that the IMF pushed, in particular, premature capital market liberalization, have contributed to global instability.

There has been a string of crises along the liberalization process after the collapse of Bretton Woods system. Barry Eichengreen and Michael Bordo counted 95 crises in emerging market economies and a further 44 in high-income countries between 1973 and 1997 and suggests that “relative to the pre-1914 era of financial globalization, crises are twice as prevalent today” (Eichengreen, 2004: 18).

Financial crises have been more frequent since the 1990s. There was the 1994–95 Mexican “tequila” crisis, the 1997–98 Asian financial crisis, the 1998–99 run on the

Brazilian real, the 1998-99 Russian ruble/Long-Term Credit (Long-Term Capital Management) crisis, the 2000 Turkish crisis, the 2001–02 meltdown of the Argentine economy, the 2002 attack on the Brazilian real, and the 2002 Uruguayan collapse. It has led to the argument that “International debt crisis has become a defining feature of the contemporary world economy” (Dymski, 2003).

The IMF incurs more criticisms for its way of dealing with financial crisis. The IMF’s management of financial crisis has provoked high controversy in two aspects. First, critics argued that the IMF stresses too much on the neoliberal market reform and the policies imposed are excessively austere. Therefore, its rescue programme is not effective and may have aggravated the crisis. Secondly, the IMF strategy is regarded to serve primarily to bail out Western banks and other investors while leaving the workers and middle classes to bear the cost (Stiglitz, 2002; Sachs, 1998).

The IMF’s failure in dealing with crises has been repeatedly pointed out by many scholars, including the 1994 Mexico peso crisis, the Asia crisis in 1997, the Russia crisis in 1998 and the Argentina crisis in 2001 (McQuillan, 1999; Stiglitz, 2002; Meltzer, 1999; Krugman, 2003; Coffey and Riley, 2006). The criticisms of IMF programmes have raised concerns about dangers to the local economy and opportunities given away to foreign investors in the process of dealing with a crisis. To examine these problems, this chapter analyses the IMF’s programme in a number of crises, with special stress on the consequences of the IMF programme in the Asian crisis.

4.2 The role of IMF in the financial crisis

We have experienced a number of financial crises in the last two decades. First there was the Mexico peso crisis in 1994. For a number of scholars, Mexico was suffering from a liquidity crisis due to sudden shifts in international private capital flows by self-fulfilling panic, without any serious fundamental problems that could directly trigger the crisis (for example: Burton and Brown, 2009: 642). In return for a \$17.8 billion loan from the IMF, however, the Mexican government had to implement a large stabilization program, including stringent fiscal and monetary policies that caused a serious recession and weakened the domestic financial system (Spero and Hart, 2006: 55), plus dramatic domestic deregulation and privatization combined with liberalization of trade and investment, that “culminated in the North American Free Trade Agreement that entered into force in 1994.” (OECD, 2000: 19). The result of this was that “Only three of the nineteen banks which were privatized ... still have their same managements. Some were taken over by the government, while several were sold to foreign financial institutions from the United States, Britain, Canada and Spain. Foreign-controlled banks now [1998] account for nearly one third of bank assets” (Hale, 1998: 241-242). Moreover, Meltzer (1999) argues the IMF protected foreign banks and financial institutions by allowing them to avoid portfolio losses. Although many of the foreign commercial banks had made loans in 1994 at interest rates of 20% per annum or more, they were not required to bear the risk that they had assumed. The international bankers were spared, but the Mexican economy suffered a severe recession.

In dealing with the 1997 Asian crisis, critics of the IMF bailout package argue that it had

prescribed a similar package to the 1994 Mexican peso crisis, including austere fiscal and monetary policies, high interest rates and promoting liberalization, privatization and market reform. The International Monetary Fund's (IMF) response to the Asian financial crisis has also incurred intense criticisms. "All over Southeast Asia", noted by the New York Times, "people are complaining that a cabal of heartless bureaucrats at an institution many have come to loathe – the International Monetary Fund – is worsening their economic misery ... Rarely in its 52-year history has the fund been under such concerted attack from so many quarters." (New York Times, 1998). More details of the IMF's program in the Asian crisis will be discussed in the next part.

In August 1998, right after the Asian crisis, Russia found itself in trouble with an intense financial panic, and the ruble declined in real effective terms by more than 45 per cent from its July 1998 level (Stiglitz, 2002: 149). Although the underlying vulnerability of the economy was a problem which no investor could ignore, Buchs (1999) argues the Russian financial disaster was a typical example of crisis contagion. UNCTAD (1999a) notes that the Asian crisis led to a huge decline in world prices of commodity/raw materials, including oil, gas, metals etc. Russia, as a main exporter of raw materials, was seriously affected and in most danger of a crisis. "Contagion from the global financial turmoil in 1998, and especially from the Russian crisis, was responsible for the growing financial and macroeconomic turbulence in a number of transition economies" (UNCTAD, 1999a: 14). Again, the IMF stepped in to help, and again, it failed. In the 1998 US Congressional Record, David Malpass – the Deputy Assistant Secretary of State under President George H. W. Bush, points out that:

All Russia got was another IMF austerity program – a Russian commitment to shrink the economy further by squeezing taxes out of the energy companies, the country's lifeblood. Result: capital flight, a devastating betrayal of the ruble, a standstill on debt payments, and the likelihood of a cold winter for Russians as energy companies prepare to cut off cities and provinces that cannot pay their bills (US Congress, 1998: 19410).

Apart from the austere fiscal policy, Stiglitz (2002: 148) points to a bad IMF policy that could put Russia deeper in debt. This is, because given the serious corruption in Russia and its overvalued currency, lending to Russia discourages the government's willingness to reform and the money would be diverted from the intended purpose to the pocket of corrupt officials. Moreover, supporting a clearly overvalued currency makes little sense and it is likely to fail. Therefore, the money was wasted and Russia was deeper in debt. Stiglitz (2002: 151) concludes that "by lending Russia money for a doomed cause, IMF policies led Russia into deeper debt, with nothing to show for it. The cost of the mistake was not borne by the IMF officials who gave the loan, or America who had pushed for it, or the Western bankers and the oligarchs who benefited from the loan, but by the Russian taxpayer."

Argentina's economic policies during the 1990s were developed under the direction of the IMF and many of its economic policies were applauded and suggested as a model for other emerging markets (Mussa, 2004; MacEwan, 2002; Campodonico, 2002). Argentina's neoliberal economic model that has closely followed the Washington Consensus requirements – privatization of state enterprises, liberalization of foreign trade and investment, and tightened government fiscal and monetary policy. MacEwan (2002)

argues these neoliberal economic policies have received substantial support among the country's business elite, especially from those whose incomes derive from the financial sector and primary product exports. These groups have gained substantially, and officials in the Argentine government have been active in formulating and executing the policies with the series of loans given by the IMF, who had got the leverage to guide Argentine policymakers to increasingly adopt the Fund's conservative economic agenda.

In the Argentina crisis in 2001, the IMF offered financial help to Argentina with the condition of maintaining the severe monetary policy and continuing to tighten the fiscal policy. With the economy in recession and tax revenues plummeting, the only way to balance the budget was to drastically cut government spending. President Fernando de la Rúa and Economy Minister Domingo Cavallo decided to implement a 'zero fiscal deficit' policy which was fully endorsed by the IMF, i.e., the government would permit no budget deficit (Campodonico, 2002). To carry out this policy, the government was both eliminating social programmes and reducing overall demand. As noted by Campodonico (2002), "in a recessive context, the government targeted anything that moved: it trimmed retirement payments, increased all kinds of taxes and reduced the budget transfers to the provinces." In mid-December, the government announced that it would cut the salaries of public employees by 20% and reduce pension payments (MacEwan, 2002).

Argentine and IMF officials hoped that these cuts would reassure investors and allow interest rates to fall. However, investors saw the cuts as another sign that the country's crisis was worsening, and the bonds could only be sold at sharply higher interest rates. By the second quarter of 2001, Argentina's country risk was rising relative to that of other

“emerging markets” (Rodrik, 2003: 18) Doubts over Argentina’s capacity to pay its debt led to skyrocketing interest rates in the international capital markets for new debt issuances. Argentina had to pay interest rates of over 14-16% in July 2001. The situation was clearly untenable. With interest rates so high, the possibility of default was virtually assured. After August 2001, the international capital markets simply did not accept any more debt issuances: the market was closed for Argentina, which meant that the budget deficit could no longer be financed by foreign capital, even at astronomical interest rates (Campodonico, 2002).

In a report published by its independent evaluation office in 2004, the IMF itself admitted that its mistakes helped plunge Argentina deeper into trouble during the 2001 currency crisis. The IMF (2004: 65) concludes that:

[I]n retrospect, the IMF’s efforts at crisis management suffered from a serious weakness ... the ultimate costs probably rose, as Argentina’s credibility was lost, international reserves declined further, more public debt was forced on the banking sector and more deposits were withdrawn, and the country’s debt to the IMF expanded against the background of falling output ... The concentration of the IMF’s own credit risk also increased.

4.3 The IMF remedy in the Asian crisis

The IMF-supported programme, approved in late 1997, focused exclusively on domestic weaknesses, including large scale financial sector restructuring, corporate governance, and capital account liberalization (Lane et al., 1999: 18; 2000: 58). The reason for these policies, as argued by Lindgren et al. (1999: 1) and Lane et al. (1999: 9), is that the IMF sees the origin of the Asian crisis rooted deeply in the domestic economies, including the

financial and corporate sector weaknesses and the macroeconomic vulnerabilities. More specifically, the financial weaknesses include the implicit guarantees on banks' liabilities, tight connections between banks and borrowing customers, lax regulatory frameworks, which all led to the poor quality of bank loans (Lane et al., 1999: 12). The corporate sector weaknesses include the high leverage, low profitability and poor corporate governance (Lindgren et al., 1999: 4). The macroeconomic problem is the fixed exchange rate regime that promotes capital inflows which helped fuel rapid credit expansion that led to asset price inflation and excessive risk taking (Lindgren et al., 1999: 9). As Hahnel (2000: n.pag) noted:

IMF officials Michel Camdessus and Stanley Fischer were quick to explain that the afflicted economies had only themselves to blame. Crony capitalism, lack of transparency, accounting procedures not up to international standards and weak-kneed politicians too quick to spend and too afraid to tax were the problems according to IMF and US Treasury Department officials. The fact that the afflicted economies had been held up as paragons of virtue and IMF/World Bank success stories only a year before, the fact that neoliberalism's only success story had been the Newly Industrialized Countries (NIC's) who were now in the tank, and the fact that the IMF and Treasury department story just didn't fit the facts since the afflicted economies were no more rife with crony capitalism, lack of transparency, and weak-willed politicians than dozens of other economies untouched by the Asian financial crisis, simply did not matter.

In dealing with the "structural" weaknesses, the IMF rescue program included a tight fiscal and monetary policy, including raising interest rates, cutting government spending, raising taxes, improving governance and reforming banking (Radelet and Sachs, 1998: 51; Lindgren et al., 1999; IMF, 2000). These remedies incurred serious criticisms.

Contractionary fiscal and monetary policy

The first problem was the tight fiscal and monetary policy that contributed to the deeper contraction of the local economy. Stiglitz (2002: 104) argues the IMF misjudged the East Asian crisis by using a “standard” way of dealing with the financial crisis – tight fiscal and monetary policy and cutting excessive demand, as what was needed in the Latin American crisis. But the East Asian problem was not excess demand but insufficient demand. Stiglitz (2000) points out that one of the underlying causes of the earlier Latin American crisis had been excessive government spending. The long-term public sector budget deficits generated price inflation and trade deficits which led to overvalued currencies and flight of capital. The Asian crisis, however, reflected few characteristics of the earlier Latin America crisis. The government budgets were in substantial surplus, price inflation was moderate, saving rates were high and trade was in surplus (World Bank, 1998).

Krugman (2008: 115) argues that, in the case of Asia, nobody but the IMF seemed to regard budget deficits as an important problem. According to the IMF, cutting government spending, raising taxes and conducting a tight fiscal policy was intended to avoid a large budget deficit. These crisis-hit countries, facing a downturn, were asked by the IMF to cut trade deficits, or even build a trade surplus. Stiglitz (2002: 107) argues this “might be logical if the central objective of a country’s macroeconomic policy were to repay foreign creditors” since building up foreign reserves through trade surplus could be better able to pay back the loans. Krugman (2008: 115) argues that the contractionary fiscal and monetary policies have double negative effects: when the budget is met, it

worsens the recession by reducing demand; when it is not met, it feeds the market panic by implying things are out of control. Reading (1997) holds the similar view and argues that “Fiscal retrenchment and monetary stringency have been prescribed to cut imports by forcing the economy into recession. Korea’s problems of ... liquidity crunch are to be made worse.”

A conservative fiscal policy means IMF does not care so much about domestic employment rate, falling wages and the economic development, compared to the importance to ask Asian countries to cut spending and earn more foreign reserve to pay the foreign investors. There are fears that, by not making the foreign investors bear the cost of their misadventure, the IMF support encouraged their continuing irresponsibility. As pointed out by Norberg (2003: 179), constant crisis packages can prompt investors to take bigger risks than they otherwise would, because they know that if things get wrong, the IMF will jump in to save them.

This also means that foreign investors did not bear any cost of their unsuccessful investments. Norberg (2003: 179) argues that from a liberal perspective, it does not make sense that taxpayers are forced to pay for the mistakes of speculators. A central canon of the capitalistic system, after all, is that unsuccessful investors must themselves bear the cost of their failure. Lauch Faircloth, republican Senator of North Carolina, argues that the IMF has “privatized profits and socialized losses.” (Longman and Ahmad, 1998). Or, as Michel Camdessus states, the IMF has been “too soft on lenders, too hard on people” (Stokes 1998, quoted in Robison et al, 2000). It is essential to ensure that those international investors who made poor or reckless investment decisions must bear the

cost and companies must be allowed to default and investors should take their losses. However, Reading (1997) points out it was the Asian labours that burdened the risks and the losses that would otherwise be on the Western bank's shoulders, given the situation that "The IMF has stipulated that bad banks and over-committed *chaebol* must be allowed to fail. Their shareholders, depositors and employees must suffer."

Other critics argue that it is the IMF's promotion of financial liberalization that was the central problem to the Asian crisis and the IMF's strategy was misguided (Stiglitz, 2002). After the crisis, the IMF itself admitted the fiscal policy it imposed on East Asian countries was excessively austere. The IMF (1998: 25) recorded this in its "Annual Report of the Executive Board" that "some Directors questioned the need for significant tightening of fiscal policy since the Asian economies in crisis generally did not suffer from fiscal imbalances." In another similar report, IMF (2000: 14) recognizes "The recoveries in Korea, Malaysia, and Thailand were supported by expansionary fiscal and monetary policies, which contributed to a turnaround in domestic demand." Lane et al., (1999) also noted that "unlike the typical case in which the IMF's assistance is requested, these crises did not result mainly from the monetization of fiscal imbalances and only in Thailand were there substantial external current account imbalances."

Contradictory to the IMF's remedy, other scholars have advocated more expansionary policies to combat the inevitable slowdown in economic growth. As Jeffrey Sachs – the main proponent of this view put it, "The region does not need wanton budget cutting, credit tightening and emergency bank closures. It needs stable or even slightly expansionary monetary and fiscal policies to counterbalance the decline in foreign loans"

(quoted in Bullard, Bello and Mallhotra, 1998). Therefore, he argues the IMF should do the opposite – an expansionary fiscal policy to stimulate the economy.

High interest rate

The second problem was the high interest rate. The IMF maintains that a significant rise in interest rates was necessary to restore market confidence, given the huge depreciations of local currency. As the former IMF's Managing Director – Stanley Fischer (1998: 104) argues:

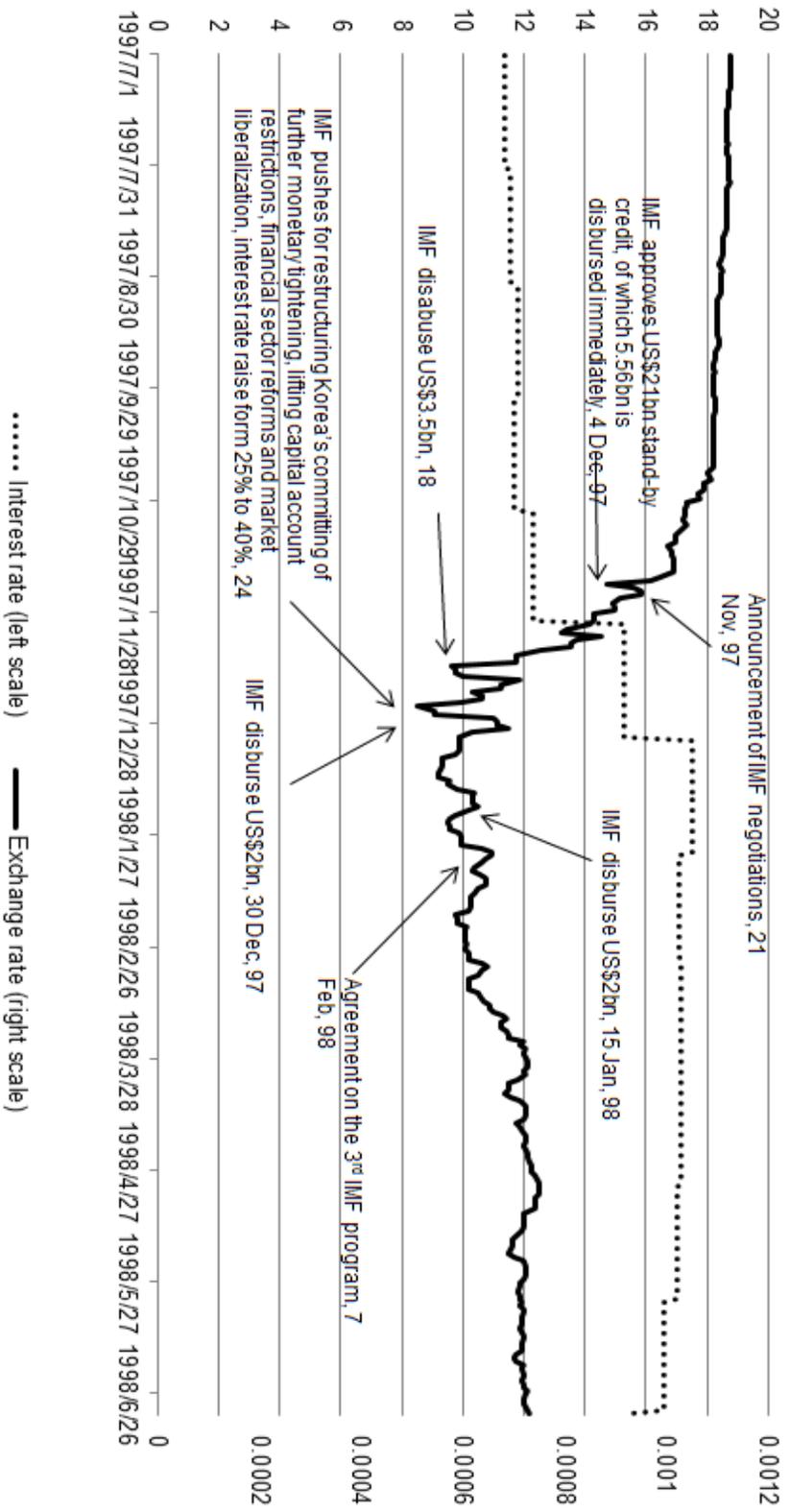
The first order of business was to restore confidence in the currencies. To achieve this, countries have to make their currencies more attractive, which require increasing interest rates temporarily-even if higher interest costs complicate the situation of weak banks and corporations. Once confidence is restored, interest rates can return to more normal levels.

The IMF seems to defend its high interest rate policy based on two points: first, high interest rates make Asian currencies more attractive, therefore less capital outflows and restores exchange rates; and secondly, it helps restore market confidence. For both Korea and Thailand, figure 4.1 and figure 4.2 show the movement of daily exchange rates and the monthly lending interest rate, that is the interest rate that bank charged on the short- and medium-term financing loans of the private sector. In both countries, the interest rates were raised and maintained high and contrarily the exchange rates plunged. The IMF program clearly failed dramatically to restore the exchange rates in both countries. As Radelet and Sachs (1998) noted, exchange rates fall far below the target set in the program, despite the sharp increase in interest rates.

While the high interest hardly worked to restore the exchange rate, it brought serious consequences to the local economies. Given the high levels of indebtedness for East Asian companies, imposing high interest rates, was like “signing a death warrant” for these companies (Stiglitz, 2002: 104). As has been discussed in chapter 3, the high corporate leverage, particularly in Korea, was documented by various authors and even by IMF itself. The rising high interest rates inevitably increased the burden of local companies to serve the foreign debt and put them in distress. Yet the IMF pushed high interest rates that exacerbated these problems.

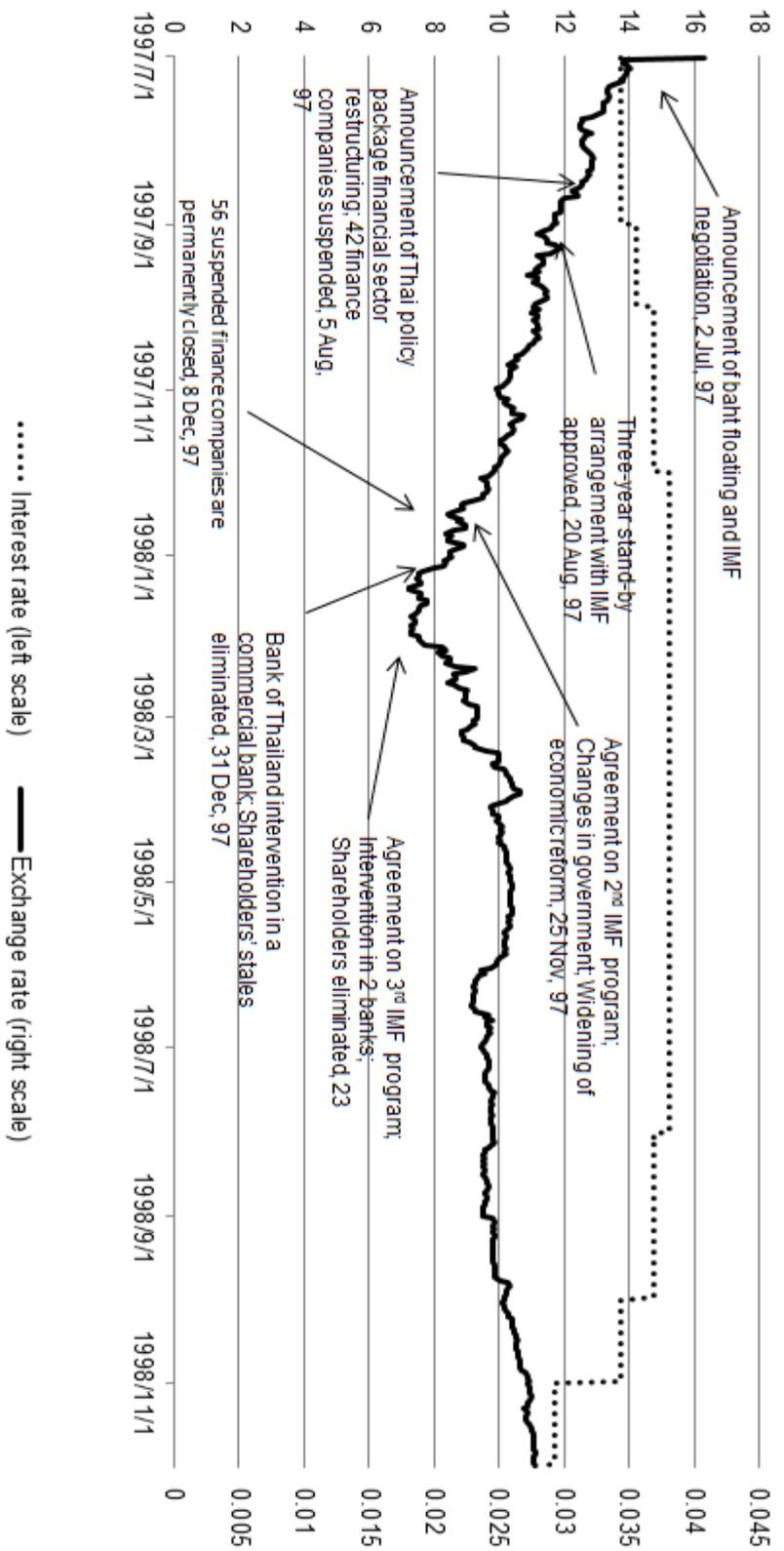
With more firms suffering bankruptcy, the banking sector was also weakened as the number of non-performing loans (NPLs) increased. The distressed financial and corporate sector, combined with the reduction in aggregate demand resulted by contractionary policies, contributed to a serious recession (Stiglitz, 2002: 110-111). Based on this point, Stiglitz (2002: 111) argues the rise in interest rates also did not restore market confidence, because international investors were convinced by their anticipation that the East Asian economies were getting into a recession, which could not inspire confidence and was also something that rising interest rates could not resolve. Therefore, high interest rates did not attract more capital into the country but made the recession worse and actually drove capital out of the East Asian economies. In spite of this the Fund continued to make its resources available (figure 4.1 and 4.2), official reserves fell sharply and exchange rates did not stop falling, as investors remained unconvinced about the debt serving capacity of the domestic firms and continued to ask for repayment of short-term loans (Radelet and Sachs, 1998).

Figure 4.1 IMF policy, lending interest rate and exchange rate in Korea, % per Annum and Won to USD



Source: for daily exchange rate, OANDA online database; for IMF policies, IMF country reports, various issues; for monthly lending interest rate, IMF IFS statistics

Figure 4.2 IMF policy, lending interest rate and exchange rate in Thailand, % per Annum and Baht to USD



Source: for daily exchange rate, OANDA online database; for IMF policies, IMF country reports, various issues; for monthly lending interest rate, IMF IFS statistics

Regarding the negative effects of the debt serving of domestic firms, the IMF argued it was still a better option than a failure to stabilize currencies, because most debts were foreign-currency dominated and recovery of currency value would be better than maintaining low interest rates to minimize insolvency (Sharma, 2003: 52). The later development of the crisis tells us that raising interest rates has little effects on saving the currency, and the countries were thus forced to lose on both accounts (Stiglitz, 2002: 111).

Market confidence

The market confidence has to be taken seriously because the sudden shifts in “market confidence” played a central role in triggering the crisis, and restoring the investors’ confidence should be the top priority in curing the crisis (Radelet and Sachs, 1998; Marshall, 1998; Chang and Velasco, 1999). The importance of restoring market confidence is also included in the papers written by the IMF’s own staff (Lane et al., 1999; Lindgren et al., 1999; IMF, 2000). The IMF’s perception is that the loss of market confidence is rooted in the domestic weaknesses. Therefore comprehensive “structural” reforms were carried out, including closing insolvent banks and financial institutions, cutting off the link between government and businesses, and eliminating all other types of “crony capitalism”, which were seen by the IMF as addressing the root causes of the crisis, were also deemed critical to restoring market confidence and the resumption of sustainable growth.

Scholars argue that the IMF’s directive to a dramatic “structural” reform at the time of crisis without thinking of the consequences, caused panic and further weakening the

financial sector and destroyed faith in the economy. As a result, the IMF remedy hardly worked to restore market confidence (Krugman, 1998d; Sachs, 1999; Radelet and Sachs, 1998). Sanger (1998, n.pag) found the Fund itself admitted its tactics in Indonesia worsened the market confidence, by saying:

A confidential report by the International Monetary Fund on Indonesia's economic crisis acknowledges that an important element of the IMF's rescue strategy backfired, causing a bank panic that helped set off financial market declines in much of Asia ... These closures, far from improving public confidence in the banking system, have instead set off a renewed "flight to safety". Over two thirds of the country's (Indonesia's) banks were affected, and more than \$2 billion was withdrawn from the banking system.

Indeed, as argued by Sharma (2003: 52), there is compelling evidence in Indonesia that bank closures were carried out in an *ad hoc* manner, ignoring issues such as deposit insurance, therefore leading to panic withdrawals of funds and undermining investor confidence.

Regarding the issue of restoring market confidence, the IMF stressed too much importance on the fundamentals, which hardly worked, while largely ignoring the financial panics which amplified by the "herding" effects (Radelet and Sachs, 1998). As Krugman (1998b) notes, "the real critique of the IMF, the one we should worry about, is the accusation that it failed to understand the panic element in the Asian crisis, and that it concentrated on disciplining countries when it should have concentrated instead on reassuring markets."

While the IMF seems to hold firmly about the relationship between sound economic

fundamentals and the market confidence, Woo (2000) found the change in the judgment of the Asian financial crisis by a well-known economist – Paul Krugman. In March 1998, Paul Krugman (1998b) posted on his website a well-documented record of his initial judgment about the crisis, which states that:

Broadly speaking, I would say that there are two approaches to the Asian crisis One approach - which I would identify mainly with Harvard's Jeffrey Sachs - regards what happened to Asia as basically a modern, high-tech, multicultural version of a good old-fashioned financial panic ... The important point to make here is that a panic need not be a punishment for your sins. In principle, at least, an economy can be "fundamentally sound" - it can be doing more or less everything right - and yet be subjected to a devastating run started by nothing more than a self-fulfilling rumor ... OK, as you may have guessed, I don't buy that story ... The story I believe ... argues that the preconditions for that panic were created by bad policies in the years running up to the crisis. The crisis, in short, was a punishment for Asian sins, even if the punishment was disproportionate to the crime ... What were these Asian sins? We hear a lot now about "crony capitalism". It's a good phrase, and it certainly captures the spirit of what went on in much of Asia. The specific sin that pushed Asia to the brink was the problem of moral hazard in lending - mainly domestic lending.

Following this domestic weakness view, Krugman (1998b) went on to defend the IMF policies, which were justified because the IMF was not a true lender-of-last-resort due to its limited financial capital, and because the IMF had little choice. Krugman (1998b) argues raising interest rates was the only way to support the currency once a country begins running out of foreign exchange reserves and lets free falling exchange rates give the risk of hyperinflation.

Then seven months later, in October 1998, Paul Krugman (1998d) (see also Krugman, 1999b: 111) completely reversed his assessment of the crisis in an article entitled “The Confidence Game: How Washington Worsened Asia’s Crash”, in which he states:

When the Asian crisis struck, ... countries were told to raise to raise interest rates, not cut them, in order to persuade some foreign investors to keep their money in place and thereby limit the exchange-rate plunge ... In effect, countries were told to forget about macroeconomic policy; instead of trying to prevent or even alleviate the looming slumps in their economies, they were told to follow policies that would actually deepen those slumps ... (To understand the perverse macroeconomic policy stance) consider the situation from the point of view of those smart economists who are making policy in Washington. They find themselves dealing with economies whose hold on investor confidence is fragile...The overriding objective of policy must therefore be to mollify market sentiment. But, because crises can be self-fulfilling, sound economic policy is not sufficient to gain market confidence; one must cater to the perceptions, the prejudices, and the whims of the market. Or, rather, one must cater to what one hopes will be the perceptions of the market ... In short, international economic policy ends up having very little to do with economics. It becomes an exercise in amateur psychology, which the IMF ... and the Treasury Department try to convince countries to do things they hope will be perceived by the market as favorable. No wonder the economics textbooks went right out to the window as soon as the crisis hit ... Unfortunately, the textbook issues do not go away....The perceived need to play the confidence game supersede the normal concerns of economic policy. It sounds pretty crazy, and it is.

What led to Paul Krugman’s change? In a September 1999 issue of “Slate”, Krugman (1999b) states: “Where do I fit in? In the summer of 1998, I began to reconsider my own views about the crisis. The scope of global “contagion” – the rapid spread of the crisis to countries with no real economic links to the original victim – convinced me that IMF

critics such as Jeffrey Sachs were right in insisting that this was less a matter of economic fundamentals than it was a case of self-fulfilling prophecy, of market panic that, by causing a collapse of the real economy, ends up validating itself.”

To the IMF, budget deficits, cronyism and corruption are obstacles to bringing back the market confidence. But what did the “crony capitalism” have to do with the run on the Asian currencies? The closure of problematic banks and financial institutions before the crisis shows a positive attitude of the local government to address the domestic problems. To restore the market confidence, in addition to provide “quick and sufficient” financial support, but more importantly, the IMF should reassure the market by confirming the determination of the governments’ measures against cronyisms. Or it could persuade Japanese, European or American banks to offer emergency loans privately. Closing down a number of banks and financial institutions and blaming the domestic weaknesses in Asian economies publicly in the middle of a financial panic did not do any help to eliminate investors’ worries about the East Asian market and could only encourage the capital outflows. As Bullard, Bello and Mallhotra (1998) conclude, the IMF-prescribed policies accelerated economic contraction, did not stabilize currencies and did not restore market confidence.

To evaluate the IMF programme, it failed in three aspects. First, it saw the roots of the crisis in the domestic weaknesses, the “structural” reform aimed at addressing the domestic weaknesses failed to restore the market confidence. Secondly, the tight fiscal and monetary policies depressed the economy and worsened the recession. Thirdly, the high interest rates did not convince investors to rollover their loans, while it increased the

debt service burden on the local firms, thereby socializing the cost of unsuccessful investments onto the local workers. However, this interpretation does not mean the IMF policies have not “succeeded”. The question is “succeeded” to whom. The IMF policy serves the interest of transnational capitalist class to sell or redistribute public goods to private interests through privatization, deregulation of finance and trade and the liberalization of national economies and by allowing allegedly “unfettered” foreign investment. Neoliberal policies implemented in the program and the establishment of capitalist East Asian economies provided the means of rhetoric for all sorts of enclosure – those critical components of Marx’s primitive accumulation. These enclosures were accomplished by the privatization of the commons through the increased merger and acquisitions and foreign ownership.

4.4 M&A and increasing foreign ownership

Reading (1997) argues foreign lenders were the beneficiaries of the IMF bail-out program. US, Japanese and European banks were rescued from the losses they would face if Korea defaulted. In addition, Woo-Cumings (2003) argues the IMF conditions served the brokerage firms on Wall Street far better than the needs of Asian economies, because Americans demanded, and got, the right to establish bank subsidiaries and brokerage houses in the Korean market and the foreign ownership of publicly traded companies has been forced to increase to a large extent. Accounting in Korean firms is subject to international standards with requirements to submit to audits by internationally recognized firms, which means more business opportunities for the financial companies on Wall Street. Moreover, large scale financial and business sector restructuring and

“Other Structural Measures” in the Letter of Intent submitted to the IMF gave “fire-sale” opportunities to buy the local assets (Krugman, 1998c).

UNCTAD (2000a) notes cross-border M&As in South, East and South-East Asia reached an annual average of \$20 billion during 1997-1999, compared to an average of \$7 billion during the pre-crisis years of 1994-1996. The most significant increases occurred in the five crisis-hit countries. Their share of total cross-border M&As in developing Asia jumped to 68 per cent in 1998 compared to 19 per cent in 1996. Cross-border M&As in the five countries as a whole reached a record level of \$15 billion in 1999. Cross-border M&A has become an important mode of entry in developing Asia (UNCTAD, 2000a: 52).

The reason for the dramatic increase in M&As has been the liberalization policy towards foreign ownership and capital flow that was embedded in the restructuring program (Khatkhate, 1998; Bullard, Bello and Mallhotra, 1998). Foreign ownership limits were also liberalized in the financial sector as well as the corporate sector, with the belief that foreign financial service companies could help to finance the recapitalization and contribute to better risk diversification and a strengthening of overall credit and risk management systems (Goldstein, 1998).

In Thailand, a series of liberalization policies precipitated the implementation of the Foreign Business Act on 4 March 2000, allowing foreign firms to hold up to 100 per cent equity in Thai banks, and 39 sectors were opened to increased foreign participation. This replaced the 1972 Alien Business Law which required a majority Thai ownership in every registered business in Thailand and the prohibition of even minority foreign ownership in

certain industries (World Bank, 2000a; Dixon, 2004; Bullard, Bello and Mallhotra, 1998). The liberalization program had far reaching effects on the Thai economy even after the crisis. Foreign ownership continued to increase and expand to the real-estate sector on October 1999, when up to 49% foreign ownership of real estate was permitted. This was further increased to 100% in March 2000 as part of a further amendment that allowed foreign ownership in a wide range of service and manufacturing sectors. The 1998 reforms permitted the 25% of foreign ownership in the insurance sector, which was raised to 50% in 2004 (Dixon, 2004).

Historically, the Korean government has been maintaining strict control over direct foreign investment, and has restricted foreign firms to minority ownership except in industries where Korean firms require extensive foreign assistance (Green, 1992). Following the IMF's recommendations in the crisis, Korea further liberalized FDI policy as a means to overcome the crisis as quickly as possible. The IMF's prescription required Korea to be less hostile and more receptive to FDI (Park and Kang, 2000). Korea's reform went as far as providing 100 per cent ownership to foreigners in previously restricted business areas and opened real estate, securities dealing and other financing business to foreign investors (ADB, 2001: 190). The liberalization program was intensive in the financial and business sectors, including the further opening of the financial sector to US banks and fund managers, opening domestic markets to cars and other key Japanese industrial goods, clearing the way for majority foreign ownership of South Korean companies and allowing foreign banks and financial institutions to set up wholly-owned branches (Bullard, Bello and Mallhotra, 1998). The restrictions on foreign investors' access to domestic money market instruments and to the corporate bond market

were eliminated, while the restriction on foreign direct investment was greatly reduced (Kwon, 2004). Foreign ownership restrictions were removed for futures and options in July 1997, 3 months before the crisis and were also lifted for equities in May 1998 (Ghysels and Seon, 2005). As a result, foreign ownership of Korean equities reached 76.6 trillion won (\$58.9 billion, 21.9 per cent of total market value) in December 1999 and increased to 87.7 trillion won (\$67.5 billion, 29.7 per cent of total market value) by June 2000 (Koo and Kiser, 2001).

The Indonesian government had also been under pressure from the IMF to open new sectors of the economy to foreigners. The 1992 Banking Act was amended, opening the long-protected banking sector to foreign ownership (Martinez-Diaz, 2006: 405). The deregulation of the capital market included the relaxation of restrictions on foreign ownership of shares (Robison and Rosser, 1998). The Indonesian Letter of Intent, which was submitted to the IMF on May 14, 1999 states that “there is no legal limit to foreign ownership in state-owned companies unless strategic or national security interests are involved”. Later in the next Letter of Intent, submitted to IMF on July 22, 1999, records that “We (Indonesian government) are also reviewing the feasibility of removing unnecessary impediments to the ownership of land and buildings, taking into account the experience of other countries.”

4.5 Conclusion

The IMF’s involvement in a series of financial crises was sending a clear message – in the process of crisis management by the IMF, a heavier burden was put on the middle class and the poor in the crisis countries, while the international bankers and investors

benefited by avoiding bearing their costs, and some even profited from the higher interest rate payments. As Stiglitz (2000, n.pag) claims:

[W]ere some of the IMF's harsh criticisms of East Asia intended to detract attention from the agency's own culpability? Most importantly, did America—and the IMF—push policies because we, or they, believed the policies would help East Asia or because we believed they would benefit financial interests in the United States and the advanced industrial world? And, if we believed our policies were helping East Asia, where was the evidence? As a participant in these debates, I got to see the evidence. There was none.

Moreover, when the crisis was over and the economy started to rebound in 2000, the World Bank (2000b: 7) argues it was the assertive structural adjustment that helped restore credit flows and boosted consumer and investor confidence. Similarly, Goldstein (2003: 370) argues Korea had regained market confidence with a “good” start on structural reform. But the concrete truth is the East Asian countries were not even halfway in finishing the financial and corporate restructuring (Park, 2006: 224). With only an initial start on the systematic restructuring, it might lay down the foundation for a sustainable development for the future but it would certainly take years to become effective. It is, therefore, implausible to attribute the Asian recovery to the IMF restructuring reforms. As Stiglitz (2002: 121) argues:

[T]o truly measure recovery, stabilization of exchange rate or interest rate is not enough. People do not live off exchange rates or interests rates. Workers care about jobs and wages ... there is no true recovery until workers return to their jobs and wages are restored to pre-crisis levels. The very fact that the IMF focuses on financial variables, not on measure of real wages, unemployment, GDP, or broader

measures of welfare, is itself telling.

It also needs to be noted that the East Asian economies played a very compliant part in the whole restructuring program – “the US response to the crisis is to demand the right of absolute surveillance ... the Thais, Indonesians and Koreans have to ‘open up their books’ to show the IMF (backed by the US government) all their dealings and, of course, gain their approval in order to survive” (Caffentzis, 2005a: 22). According to Moore (2007: 120), this reflects the “relationships of exploitation between actors in the driving seat of expansive ideologies and production and groups who operate within what become compliant zones for dominant nations’ accumulation.” In this sense, the IMF program in Asia did not fail at all. As a leading international organization that stands for the interest of international capitalist class, the IMF successfully brought the East Asia to follow the capitalist norms to ensure the neoliberal/globalization works. This, as Caffentzis (2005a: 173) points out that:

[F]or neoliberal/globalization to “work”, the system must be global and the participating nations and corporations must follow the “rules of trade” even when participation goes against their immediate self-interest. In a time of crisis, however, there is a great temptation for many participants to drop out of or bend the rules of the game, especially if they perceive themselves to be chronic losers. What force is going to keep the recalcitrants ... from proliferating? Up until the 1997 “Asian Financial Crisis” most of the heavy work of control was done by the IMF and World Bank through the power of money, but since then it is becoming clear that there are countries that will not be controlled by structural adjustment programs (SAPs) and the fear of being exiled from the world credit market if they do not follow the instructions of the IMF and the World Bank.

The neoliberal promoters involved in the Asian crisis, including the World Bank and the IMF drive international aid programs and constitute the international push toward the selling or redistribution of public goods to private interests. They did so by promoting the deregulation of finance and trade and the liberalization of national economies and by allowing allegedly “unfettered” foreign investment. Opening up the Asian economies and societies to unregulated investment involves removing other technologies of control, such as the curbing or dismantling of labour unions, the deregulation of industry and agriculture, and resource extraction and the loosening of restrictions of financial transactions, so as to enable “market relations” to determine the direction of change. The effects of these change significantly reduces the state protections of labours, resources and environments.

Chapter 5 FDI and the crisis I: commodity effect

5.1 Introduction

Foreign direct investment (FDI) has been one of the defining features of the world economy over the second half of 1990s. The FDI trend has been driven by technological and political change, evolving corporate strategies towards a more global focus and major policy reform in individual countries. Since 1990s, liberalization and modernization have taken place in many developing countries, including deregulation, Openness, demonopolization, privatization and the reduction and simplification of tariffs (OECD, 2002: 47). As an integral part of this process most developing countries are competing to attract multinational corporations (MNCs) by pursuing a more liberalized regime for FDI. As a result, more and more firms in various industries are now expanding abroad through direct investment from all over the world (UNCTAD, 1998b; 1999b).

Southeast Asian economies have been among the most open in the developing world to foreign investment, and after overtaking Latin America and the Caribbean in 1986, the region became the largest recipient of foreign direct investment among developing regions (UNCTAD, 1992: 22; Thomsen, 1999; World Bank, 1993). Asia accounts for nearly a half of the total developing country FDI stock in 1995 and 65 per cent of total developing-country FDI inflows (US\$ 65 billion) in 1996 (UNCTAD, 1996: 51). Over the last three decades, the region accounted for over half of flows into developing countries and about one fifth of the total world FDI inflows (figure 5.1).

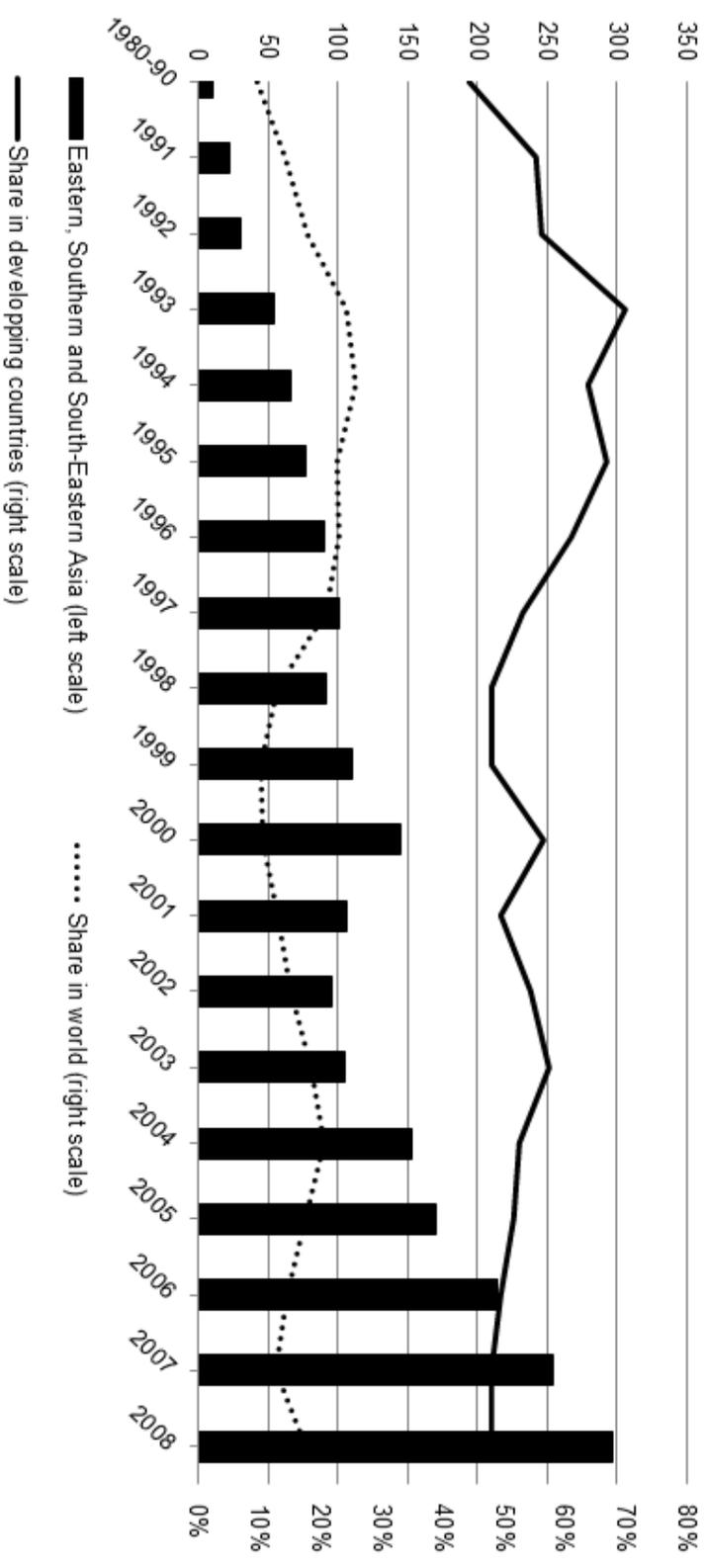
During the Asian financial crisis, the FDI inflows to the region remained stable

(UNCTAD, 1998b: 240; 1999b: 162), even under the severe impact of the Asian crisis on local economy (figure 5.3). For the East Asian region as a whole, the GDP growth rate fell sharply from 7.3% in 1997 to 2.3% in 1998. The regional shifts in GDP of 10 per cent or more in one year are very severe compared to the long-standing trends. However, the growth rate for countries in the region had all been decreasing dramatically in 1997, including Malaysia which fell by 15%, Thailand by 9%, Philippines by 6%, Indonesia by 18% and South Korea by 12%.

Given the large crisis impact on the local economy, this has raised the concern of losing state power and the increasing control of foreign capital over domestic labour and economy. Malaysian Prime Minister Mahathir Mohammed, the region's most vociferous critic of the West, adamantly refused IMF assistance, vowing that he would never permit Malaysia to be economically colonized: "the Fund's condition is to open up the economy by 100 per cent ... If Malaysia allowed this, the locals would merely be employees (of Western companies), which is equivalent to a new form of colonisation" (cited in Singh, 2005: 209).

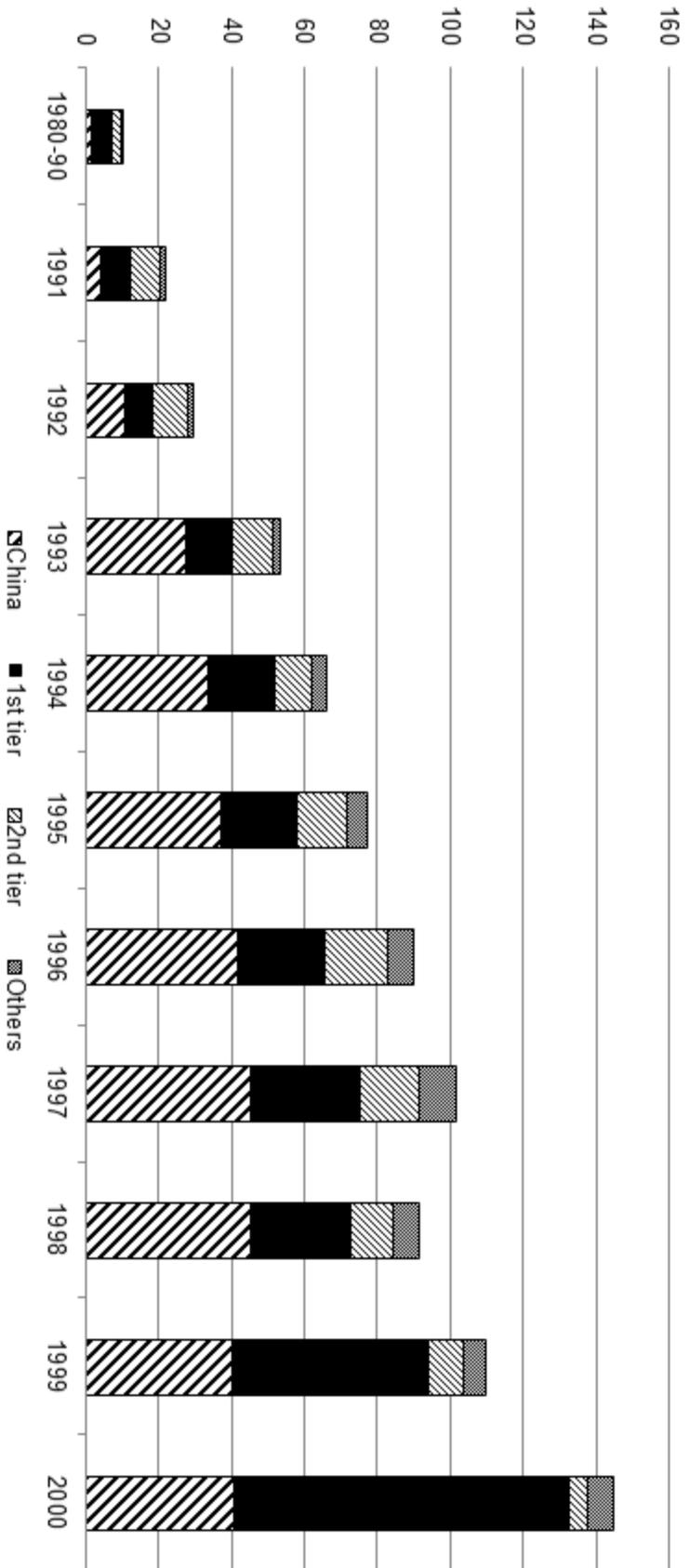
This chapter and the next examine the crisis impact on local labour and economy. Differing from the existing literature, it examines these problems through looking at the control power of FDI money in the crisis. While the next chapter deals with the effects of crisis on local labours and the subsequent FDI controlling over labour, this chapter focuses on the crisis impact on local economy and FDI controlling over local economy: first, the chapter explains the concerns of stable FDI in the crisis through explaining the nature of the FDI inflows to Asia; secondly, it examines the impact of the crisis on local

Figure 5.1 FDI inflows to developing Asia and its share in world and developing countries inflows, current US\$ Billions and %



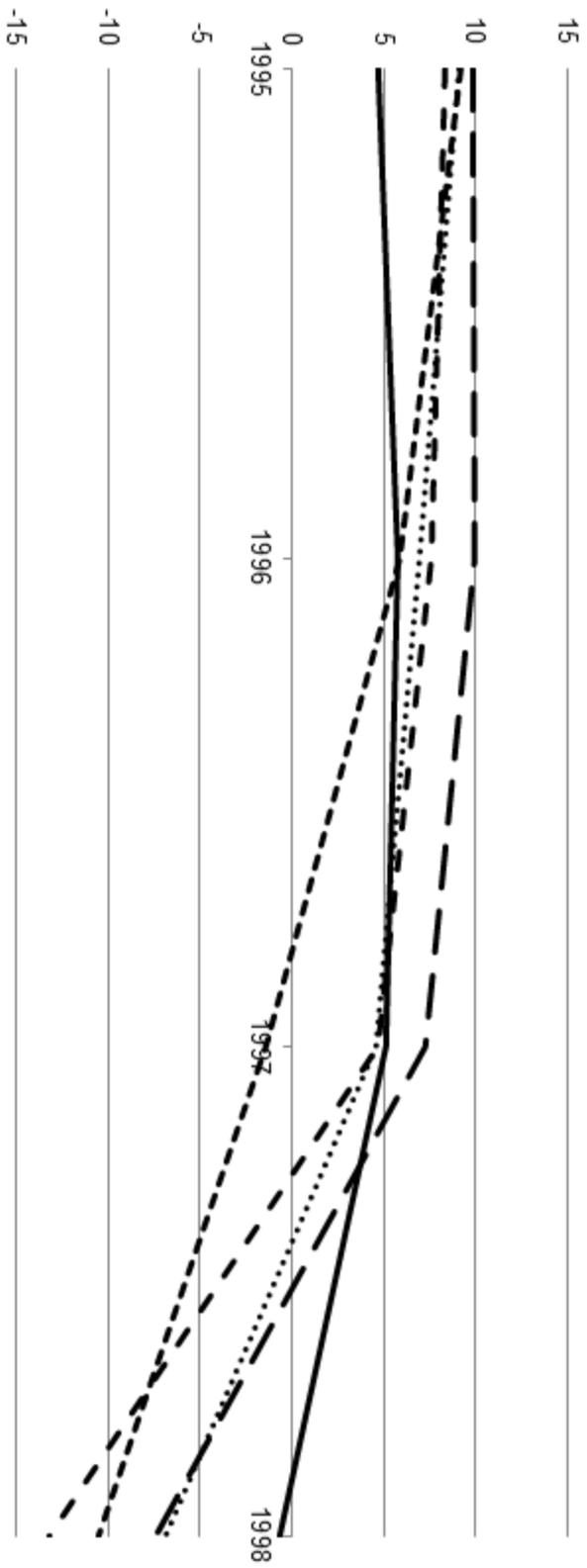
Source: UNCTAD, FDI database

Figure 5.2 Main recipient of FDI inflows to Asia, current US\$ Billions



Source: UNCTAD, FDI database

Figure 5.3 Real GDP growth rate, %



Source: World Bank, World Development Indicators

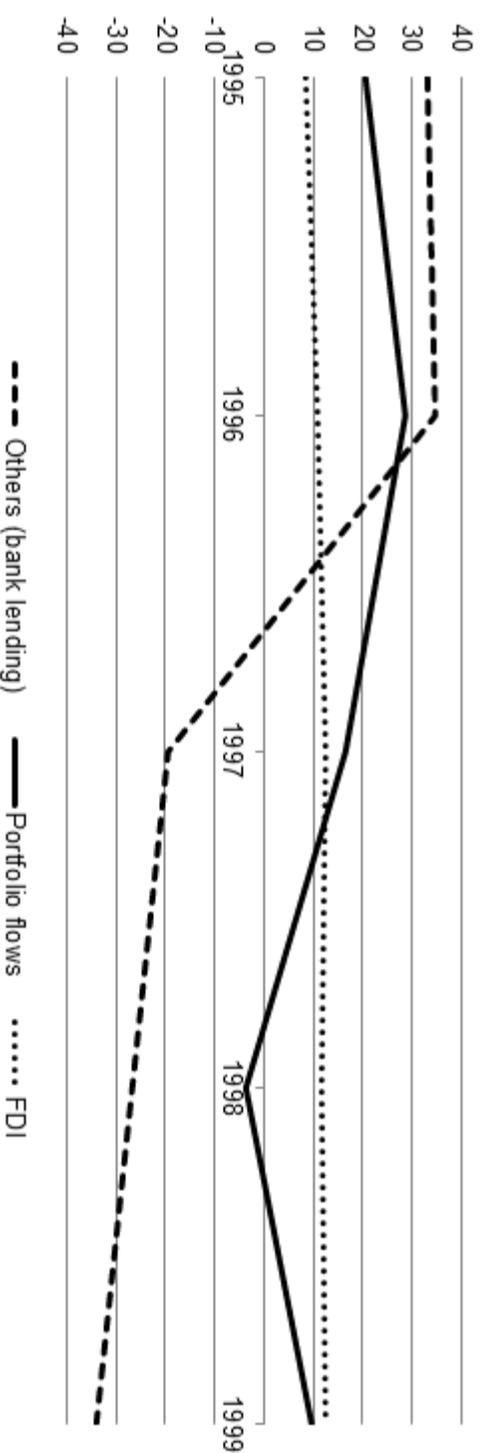
..... South Korea — Malaysia — Philippines - - - Thailand - - - Indonesia

Table 5.1 Comparison of industrial production and GDP growth rate in the Asian crisis and in the Great Depression, %

	1997-98		1929-33	
	Industrial Production	Real GDP	Industrial Production	Real GDP
Indonesia	-14.5%	-13.1%	US	-45%
Malaysia	-14.7%	-7.4%	France	-16%
Philippines	-18.9%	-0.6%	Germany	-41%
Thailand	-3.6%	-10.5%	UK	-11.4%
South Korea	-6.4%	-6.9%		-6%

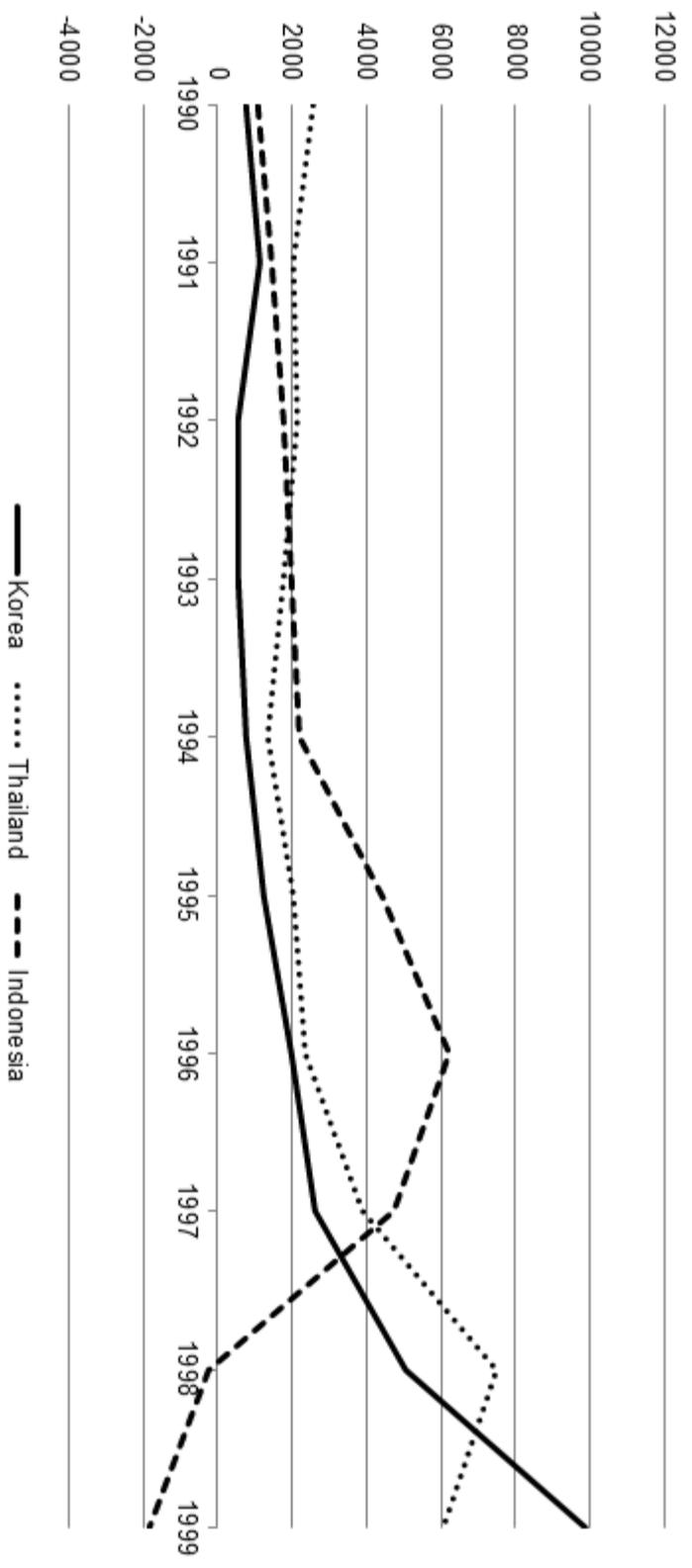
Source: for Industrial production, Korea, Bank of Korea; the rest of Asian countries, ASEAN Statistical Yearbook 2001; other industrial countries, Snowdon (2002: 109). For real GDP, Asian countries, World Bank World Development Indicators; the US, U.S. Bureau of Economic Analysis online; other industrial countries, Snowdon (2002: 109)

Figure 5.4 Net capital flows by types in crisis-affected countries*, US\$ billions



*note: countries include Indonesia, Malaysia, Philippines, South Korea, and Thailand
Source: IMF, BOPS database

Figure 5.5 FDI inflows to Korea, Thailand and Malaysia, US\$ millions



Source: UNCTAD, FDI database

currency values and commodity and land prices; thirdly, it considers mergers and acquisitions as a form of FDI and national resistance, adding more evidence to explain the FDI flows. The analysis in the following three chapters stresses on how the crisis can be a danger to the local workers and economy, and an opportunity to international capitalists.

5.2 The nature of FDI flows to Asia

Through examining the FDI flowing to Asian countries during the crisis, most studies conclude that FDI is a relatively stable source of capital (Athukorala, 2003; Lipsey, 2001; UNCTAD, 1998b: 240; 1999b: 162; 2000a: 165; Thomsen, 1999). This is confirmed in figure 5.5, showing the FDI inflows to the three worst-hit countries during the 1990s. During the crisis time in 1997-98, FDI flowing to Thailand and Korea started its strong growth trend in 1997 when local currency depreciated dramatically and a lot of foreign investors fled out of the these crisis-hit countries. The decreasing FDI to Indonesia is regarded as largely associated with the concerns about the political instabilities and social unrest by foreign investors (Hew, 2002: 37; Soegijoko and Kusbiantoro, 2001: 344). This led to the seeking for answers to explain the dramatic FDI inflows at the crisis time and its effects on the domestic economy. The question is: what factors, that were brought with the crisis, led the FDI to remain stable?

One explanation of the stable FDI is to compare it with other type of capital flows, such that “FDI was thus much less volatile than portfolio capital flows and commercial lending, both of which declined sharply in 1997, no doubt because it generally represents long-term interests in its host economies” (UNCTAD, 1998b: 198). This argument is

confirmed in figure 5.4. Regarding the five crisis-affected countries as a whole, the figure divides net capital flows into FDI, portfolio investment and other flows, which is primarily bank lending. The divergence in trends among different types of capital is immediately apparent after 1997. The net FDI flow had been stable, with only a moderate decrease from US\$ 12.5 billion in 1997 to US\$ 11.9 billion in 1998. On the other hand, net bank lending and portfolio investments had been reversed to negative values after 1997 and 1998, falling from US\$ 34.9 billion in 1996 to a negative value of US\$ 19.2 billion in 1997 and from US\$ 16.6 billion in 1997 to a negative value of US\$ 3.4 billion in 1998 respectively (figure 5.4). FDI has indeed proven to be less sensitive to crisis compared to other type of capital flows.

Another explanation focuses on the long-term nature of FDI. According to UNCTAD (1998a: 1; 1998b: 198), FDI is based on long-term consideration and represents long-term interests in its host economies, so as long as a positive evaluation of overall economic conditions in the host country exists, the companies will not alter their direct investment to that country. The problem with this explanation is that it is not clear as to how bad an economic situation must be, so the FDI inflows can be reversed.

The comparison between the Asian crisis and the Great Depression shows more about the severity of the Asian crisis (table 5.1). The US real GDP fell by 27 per cent, from \$977 billion in 1929 to \$716 billion in 1933 (constant GDP in billions of 2005 dollars, U.S. Bureau of Economic Analysis online). In other industrial countries that were affected by the global recession in the 1930s, Germany's real GDP fell by 20 per cent and industrial production by 41%. In France real GDP fell by 16 per cent and industrial production by

25.6%, and in the UK real GDP fell by 6 per cent and industrial production by 11.4%. For most of the Asian crisis-affected countries, they experienced a reduction in economic activity more than that of the UK and about equal to the level of France in the Great Depression. In the Philippines, the reduction in industrial production was more than that in France and about twice the reduction in UK. Even though the comparison of only one indicator (the GDP) does not reflect the whole story, it is clear that most Asian countries experienced a crisis with a severity close to the Great Depression. The FDI has proven to be resilient in the Asian crisis with the severity comparable to the Great Depression. It is clear that the East Asian economies were experiencing a crisis as severe as the Great Depression, which did not alter the FDI, not at least in South Korea and Thailand.

To find out the fundamental reason for a stable FDI to Asia, let us consider the case of China. The regional distribution of FDI inflows (figure 5.2) shows that almost all the FDI flowing into Asia was absorbed in the newly industrialized countries in the 1980s, including the first-tier newly industrializing economies (South Korea, Taiwan, Hong Kong and Singapore) and the second-tier newly industrializing economies (Indonesia, Malaysia, Thailand). The spectacular rise of China as a host for foreign investment in the 1990s was considered as a threat to its neighbouring countries and pushed other newly industrializing Asian countries to further liberalize trade and investment policies to maintain their attractiveness to FDIs (Thomsen, 1999). However, their efforts could not stop China's emergence as the largest FDI recipient in the region. UNCTAD (1993: 47) argues the principle reasons for the increase in inflows to China are the same as those for many countries in the region as a whole, including rapid economic growth, low production costs, a large domestic market and rising personal incomes. The report

continues to point out that the rising labour cost in these newly industrializing countries had led some MNCs to relocate their production in China, where production cost were lower. In the next year's World Investment Report, UNCTAD (1994: 67) adds that capital flows to the NIEs are decreasing due to their rising labour costs, since the loss of cost advantage in these economies (NIEs) had induced foreign companies to shift labour-intensive production to other Asian countries with lower wages such as China and India.

Moreover, after China had been receiving dramatically increasing of FDI for two decades, it faced the same problem: "The increase is the strongest sign yet that labour costs are soaring in China's biggest manufacturing centres and that consumers in other countries may eventually be forced to pay more for a wide range of goods that are made here" (New York Times, 2010a) and that "the effects of rising labour costs will vary by industry, perhaps with lower-valued goods like garments being forced to move to western China or even to Vietnam and Bangladesh" (New York Times, 2010b).

These arguments are clearly sending the message that efficiency-seeking MNCs are moving around the globe to find a place that has a cost advantage, which basically means a lower wage level and cheaper materials and other business costs. The cost advantage is exactly what these MNCs are focused on and also exactly what a financial crisis can give them, through its enormous effects on local economy to lower the cost of production. As UNCTAD (1998a: 3) argues:

One reason why inflows of FDI to the crisis-affected countries could be expected to increase in the short and medium term is the decrease in the costs, for all firms, of establishing and expanding production facilities in these countries. The decrease is

the result of exchange rate depreciations, lower property prices and more company assets offered for sale, given the heavy indebtedness of domestic firms and their reduced access to liquidity. Companies wishing to establish a presence in the region or seeking to increase the scale of their existing operations may see in the crisis an opportunity for doing so, especially if they react quickly, before recovery starts and the prices of assets and other productive resources rise again. There is some evidence that this may be taking place: in Thailand, for example, according to preliminary data, there were large increases in actual FDI flows into a number of industries during the second half of 1997 and the first quarter of 1998.

If the fundamental reason for FDI inflows to Asia is due to its cheap labour and resources, this gives many implications to explain the stable FDI at the time of a crisis. It is therefore, necessary to examine the crisis impact on local economy, to determine whether the dramatically lowered cost of production and labour encouraged foreign investors to continue expanding their investments, even in a financial crisis. Meanwhile, the dramatic FDI inflows led to a concern of its controlling power over the local labour and resources, therefore the risk of labour exploitation and the local wealth being unfairly extracted.

5.3 Currency devaluation effects

Thomsen (1999) argues the ASEAN5 countries, most of which are second-tier countries, have been major recipients of foreign direct investment since 1980s, due to the fact that firms from Japan and first-tier newly industrializing economies were looking for production bases abroad to escape appreciating home currencies. It means an enlarged exchange rate differentiation can inspire more FDI inflows. In the Asian crisis, this enlarged currency differentiation is the result of the dramatic currency devaluation.

The most dramatic effect of the crisis is the huge devaluation of local currency (figure

5.6). The crisis first erupted in Thailand in 1997 and soon spread to Malaysia, Korea and other Asian countries. Malaysia and Indonesia caught the contagion very quickly. Their currency started to depreciate at almost the same time as Thailand in July 1997. Two months later the regional currency depreciation spread to Korea. All the countries depicted in the figure reached their lowest currency level in January 1998 and started to bounce in the following month. From July 1997 to January 1998, currency depreciation reached 41.7% for Malaysia, 43.8% for Thailand, 47.6% for South Korea and the largest depreciation was Indonesia Rupiah by 74.1%.

The huge local currency devaluation had important implications on FDI. Figure 5.7 and figure 5.8 depict a detailed view on FDI inflows to Thailand and Korea during the crisis time and FDI inflows have been presented in both US dollars and local currency for a comparison. Using an index figure (1997Q1=100), the FDI, measured in US dollars and local currency, was at the same level and stayed this way until the crisis.

However, it soon separated apart in the time of the crisis and the FDI in local currency terms (real lines) went above that in the US dollar terms (dotted lines) by a large extent. The gap between FDI measured in two different currencies emerged in the second quarter of 1997 in Thailand and quickly enlarged. The same thing happened in Korea later in the third quarter of 1997, when these countries started to suffer from the crisis. Since this point, the FDI measured in local currency has been well above that in US dollar terms all the way to the end of 2000.

The huge local currency depreciations can favour the FDI inflows as it leads to amplified

effects on FDI money flowing to these crisis-hit countries. More specifically, when the FDI money in US dollars arrive the local market and converted into local currency, these FDI money in US dollar unit have been amplified in terms of local currency, so that FDI inflows measured in local currency would be cushioned when it decreases in the measure of US dollars and actually enlarged for several times when it increases in US dollar unit. FDI money measured only in US dollar units during crisis time is underestimated if one takes currency devaluation into consideration. For example, from the second quarter of 1997 to the first quarter of 1998, investment to Thailand increased by 28 per cent in US dollar terms, while in the local currency terms it increased by 133 per cent (figure 5.7). This is more obvious in the case of Korea. Investment to Korea was rising by 314 per cent in US dollars from 1997Q3 to the end of 1998, and the very same amount of FDI money became a 489 per cent increase if measured in Korea won (figure 5.8).

The huge currency devaluation gives foreign investors a motivation to stay in the crisis-hit countries, as their investment in US dollars would be amplified on the local market. In the case of Korea and Thailand, FDI increased even in the middle of the crisis and reached a peak at the end of 1998, implying that somehow investors thought the crisis was an even better time to invest in Korea and Thailand than the pre-crisis economic conditions.

5.4 The commodity sector

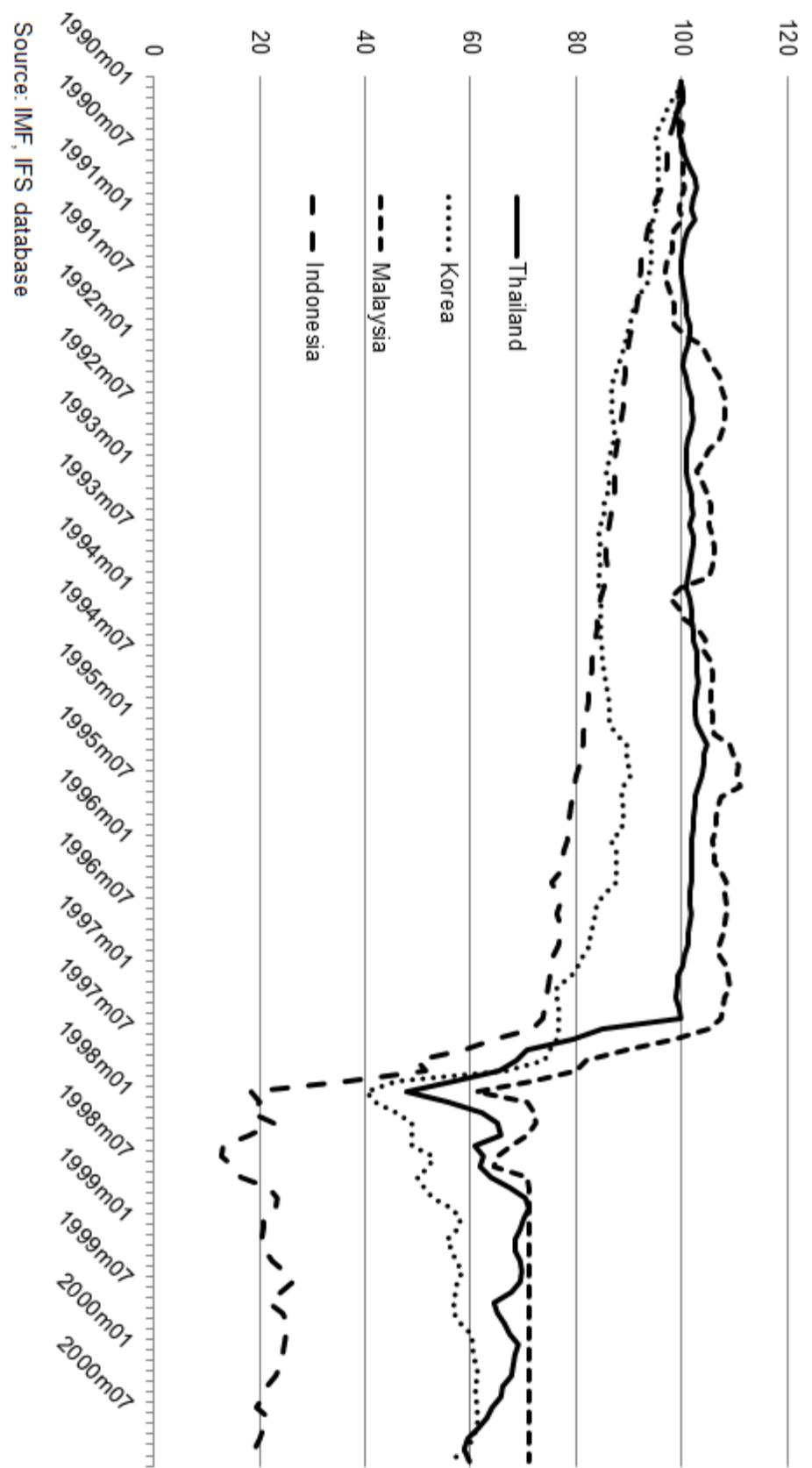
As noted by UNCTAD (2000a), the Asian crisis had an indisputably negative impact on the world market and together with the worst recession in Japan, brought a dramatically decrease in the prices of raw materials and commodities. The world prices for raw

materials and commodities dropped to levels equal to those of 1992/93, the lowest point of the decade, and even as low as those of 1986. In real terms, prices were close to their levels of the depression years between the two world wars.

The slowing down of economic activity and domestic demand led to a drop in production in of all the crisis-affected countries in 1998 (table 5.2). In 1996, prior to the onset of the crisis, all these six countries performed well, including those that were most affected by the subsequent crisis. The initial impact on industry in 1997 was not serious. Two of the six countries, namely, Indonesia and Thailand, who were also the hardest-hit countries, had a negative growth rate. The remaining countries still managed to maintain positive production growth rate. Although the crisis took place in 1997, the most serious effects on industrial production throughout the region were felt in 1998, when all the six East Asian countries experienced negative growth. Industrial production dropped significantly in Indonesia, Malaysia, and the Philippines, by 14.5%, 14.7% and 18.9% respectively. Korea dropped by 6.4%, in spite of the existence of a stronger industrial base compared to other crisis-affected countries, except probably Singapore. Obviously, all the crisis-hit countries were plunged into serious recession in their economic activities.

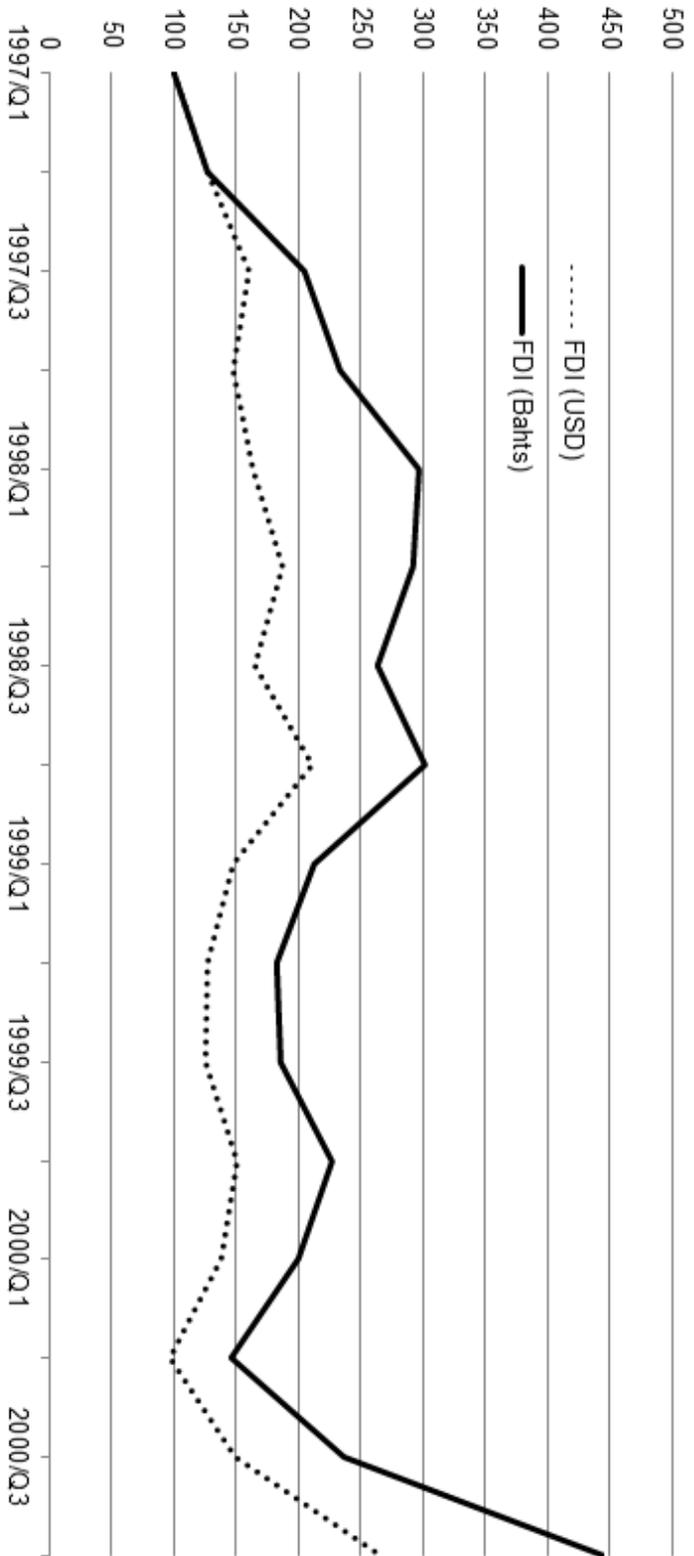
Falling demand and declining industrial production not only affected the Asian workers, but also created intense downward pressure on the prices of nearly all the commodities on the domestic market, ranging from almost all raw materials to manufacturing products (UNCTAD, 2000a; OECD, 1999b). The Rexecode-Cyclope indicator (which measures the World raw materials prices) shows a fall of 24.75% for the year of 1998, and the

Figure 5.6 Monthly local currency exchange rates against US\$, Index 1990m1=100



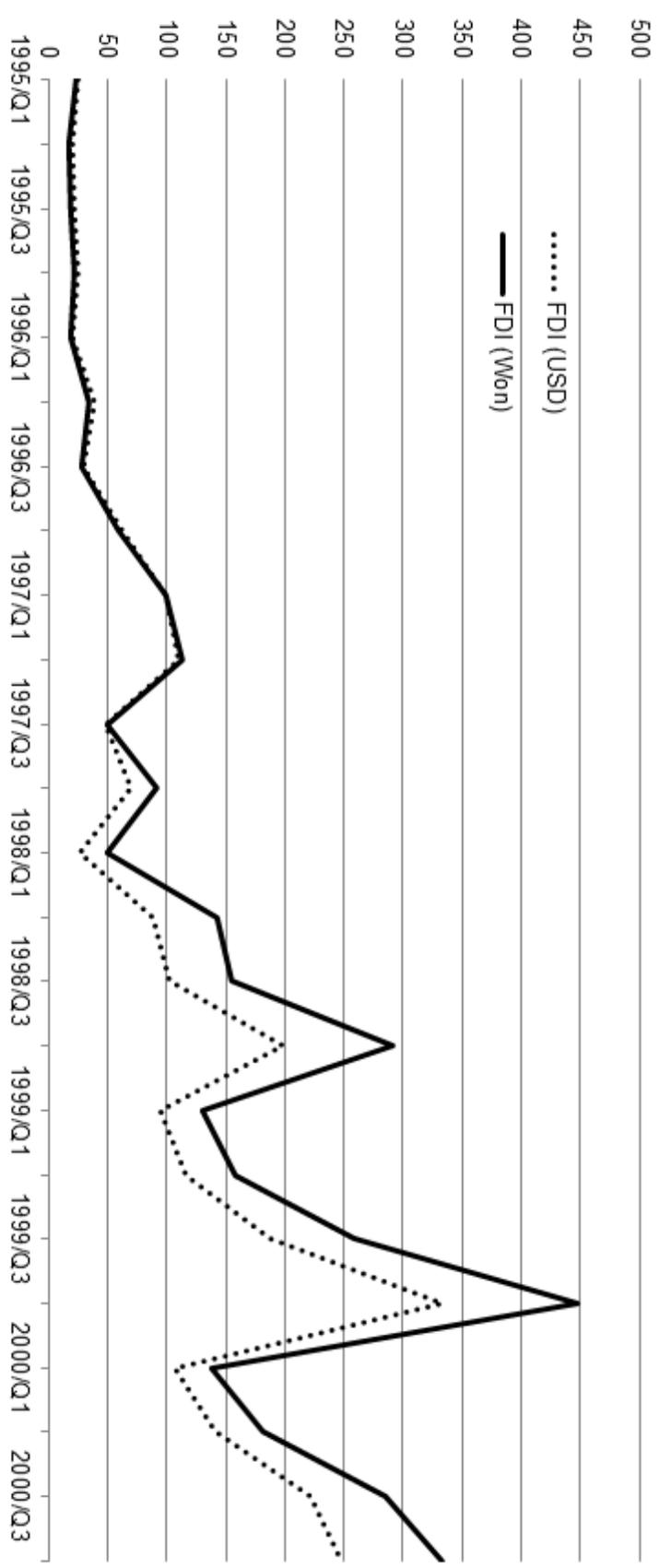
Source: IMF, IFS database

Figure 5.7 Comparison of FDI inflows to Thailand in US\$ and local currency unit, Index 1997Q1=100



Source: for FDI inflows in US dollars, UNCTAD FDI online database; for FDI inflows in Baht, author's calculation based on exchange rates from IMF, IFS statistics

Figure 5.8 Comparison of FDI inflows to Korea in US\$ and local currency unit, Index 1997Q1=100



Source: for FDI inflows in US dollars, UNCTAD FDI online database; for FDI inflows in Won, author's calculation based on exchange rates from IMF, IFS statistics

Table 5.2 Change in industrial production, index

	1996	1997	1998	1996-97 Change	1997-98 Change
Indonesia	124.5	123.7	105.8	-0.6%	-14.5%
Malaysia	155.6	172.6	147.3	10.9%	-14.7%
Philippines	142.1	161.9	131.3	13.9%	-18.9%
Singapore	84.5	92	89.7	8.9%	-2.5%
Thailand	109.2	101	97.4	-7.5%	-3.6%
South Korea	52	54.5	51	4.8%	-6.4%

*note: Indonesia: 1993 = 100; Malaysia: 1992 = 100; The Philippines: 1985 = 100; Singapore: 1999 = 100; Thailand: previous year = 100; South Korea: 2005=100

Source: for Korea, Bank of Korea; for the rest, ASEAN Statistical Yearbook 2001

Table 5.3 Prices for selected energy and raw materials in US\$

	Reporting country	Unit	1997	1998	1997-98 change
Plywood	Philippines	US Cents per Sheet	485.0	374.6	-22.8%
Rubber	Malaysia	US cents per Pound	47.0	33.1	-29.7%
Rubber	Thailand	US cents per Pound	43.3	30.4	-29.7%
Timber	Malaysia	US Dollars per Cubic Meter	662.3	484.2	-26.9%
Tin	Thailand	US Dollars per Metric Ton	5628.3	5417.6	-3.7%

Source: IMF IFS

average annual price changes for practically all products show a downturn in 1998 (UNCTAD, 2000a: 25). Petroleum consumption fell by 3 per cent in Japan, and by 15 per cent in Korea, while consumption of other primary commodities such as copper and aluminium registered double-digit declines in both countries, as well as in other Asian commodity importers, as infrastructure investment was sharply curtailed (IMF, 1999: 54). Demand for construction materials fell dramatically in 1998, due to slowed, postponed or cancelled investments in new facilities and public projects. Production of key construction materials fell by 20% to 41% in Thailand, 30 in Malaysia and 41% in Korea (OECD, 1999b: 41).

The downward pressure of falling demand led to a depression in industrial raw material prices in the Asian region (table 5.3). Rubber is one of the most important sources of export revenue in most of the crisis hit countries. Its price, however, dropped by nearly 30% in Malaysia and Thailand in 1998. Natural rubber is grown mostly in South-East Asia, which today accounts for about 92% of world production. The six leading producers – Thailand, Indonesia, Malaysia, India, China and Vietnam – account for around 88% of both world production and total exports (UNCTAD, 2004). Among them, the four crisis-affected countries – Thailand, Indonesia, Vietnam and Malaysia account for 80 per cent of world exports of rubbers (FAO, 2003).

UNCTAD (2004) noted that natural rubber provides a livelihood for a large proportion of the Asian rubber exporting countries' population, including smallholders, estate workers and their families. For instance, around 70% of Indonesia's rubber and 86% of Malaysia's are produced by smallholders cultivating, on average, one to two hectares. The sharp drop

in rubber prices would inevitably affect these people to a large extent.

The crisis did not just affect the price of primary commodities on the domestic market. It drove down the price on a global scale. Quoting the prices on London Metal Exchange (LME), the report of “World Commodity Survey 1990-2000” by UNCTAD (2000b) offers a detailed description on the crisis impact on world metal and energy prices and falling production. In the metal production sector, measuring from the point of September 1997, when the Asian crisis began to have an impact in the market, zinc prices fell by 47%, nickel prices fell by 46%, aluminium lost 21%, lead prices fell by 17%, tin prices fell by 5%. These losses took the major metals overall to 11-year lows. The contagion effects of Asian crisis led to a drop of global demand in Asia, Russia and Latin America (particularly in Brazil). As a result, the global market was under a cloud of surplus: 400 thousand tonnes for aluminium, 350 thousands tones for copper, 25 thousand tonnes of nickel, 45 thousand tons of lead, 50 thousand tonnes of zinc. Falling prices and stock surpluses led to a noticeable capacity reduction by the producers in mining and refinery industry. For example, some 300 thousand tonnes of copper production capacity were withdrawn for the market and 50 thousand tonnes of nickel production were cut between September 1997 and the end of 1998. The prices of various specialty steels fell by great degrees in 1998 (e.g. 35% fall in Russia) and world production was down by 2.5% in 1998 which is the first decline for a decade (UNCTAD, 2000b).

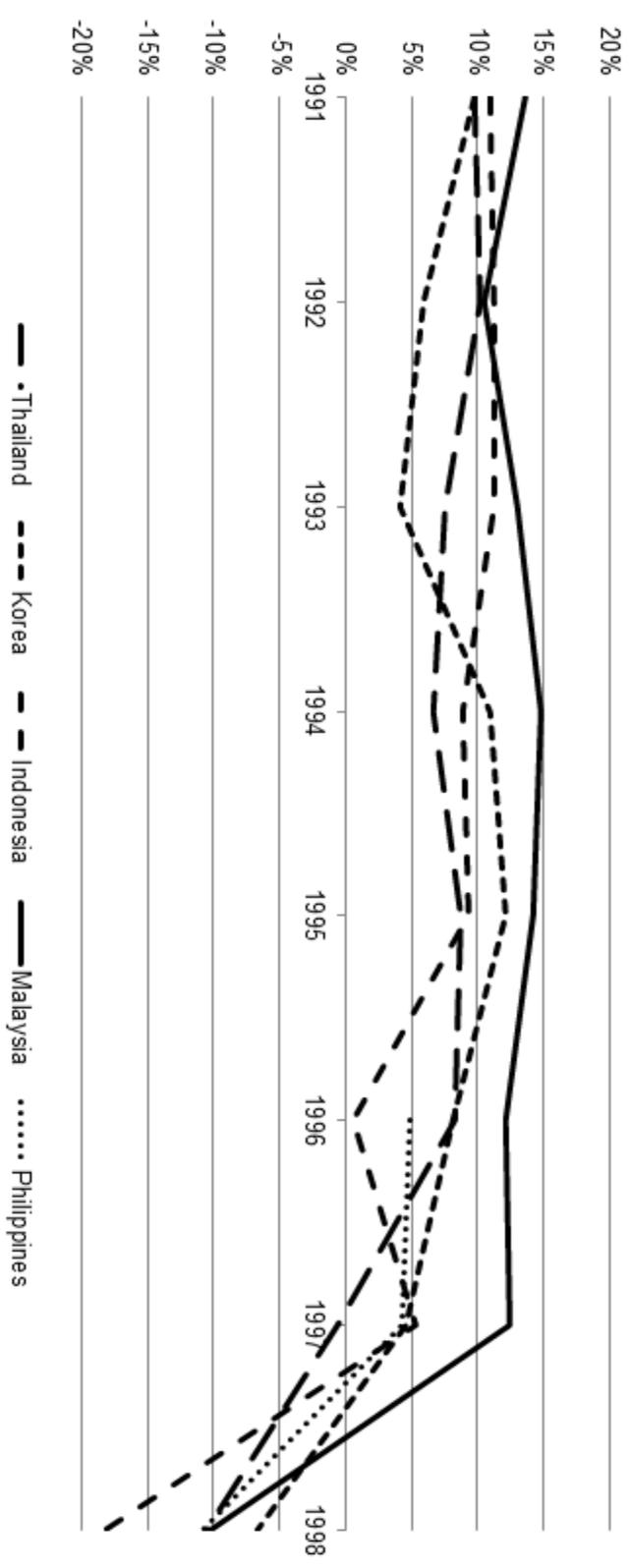
Manufacturing production was reduced as a result of a slowing down of domestic demand and the financial crisis, accompanied by a dramatic downturn in prices of commoditized industrial products. The statistical model by Timmer and Szirmai (1997) shows that

manufacturing was one of the most important sources of total economic growth in Asia, particularly for Korea, Indonesia, Japan and China. In the crisis-hit countries, manufacturing production was growing at around 10% annually before the crisis, except for the Philippines (figure 5.9). More specifically, the annual average manufacturing production from 1990 to 1997 was 10.8% for Indonesia, 13.1 for Malaysia, 9.3 for Thailand and for Korea (World Bank, 1991; 1999b). In 1998, however, the positive growth rates of manufacturing sectors in all the crisis-hit countries were reversed to negative figures. Manufacturing production started to fall in 1997 for Korea and Thailand, and later in 1998 for Indonesia, Malaysia and the Philippines. Indonesia and Malaysia experienced the largest manufacturing slump – a net change of 23 per cent.

The Asian crisis and the subsequent collapse of the markets in Japan and the emerging economies of Asia led to a downturn in world commoditized industrial products, which fell by 14% in 1998 (UNCTAD, 2000a: 309). To the contrary, the local price of industrial products in the crisis-hit countries shows a different picture. The prices, measured in local currency, were increasing dramatically with serious inflation in 1998 (figure 5.10). The sharp increase in the general price level is obvious in Indonesia in 1998 and the increasing trend was slowed down in 1999. Other crisis-affected countries followed the same trend but to a lesser extent. This is in accordance to the inflation rate.

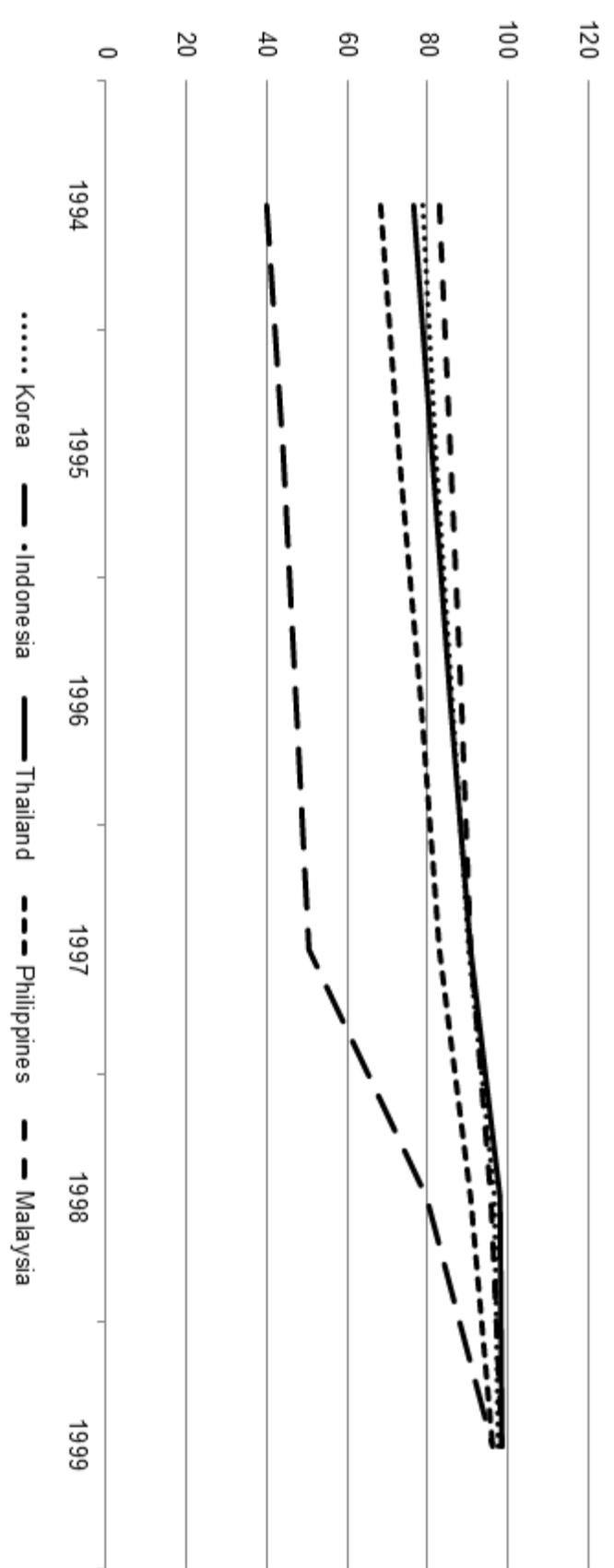
However, when local prices are measured in US dollars, the price of most industrial products went down as a result of the depreciation of local currency. Calculations based the local price index and exchange rate index show a general decreasing trend of the unit price of these products over the crisis period for Korea (figure 5.11). It clearly

Figure 5.9 Annual growth rate of manufacturing production, %



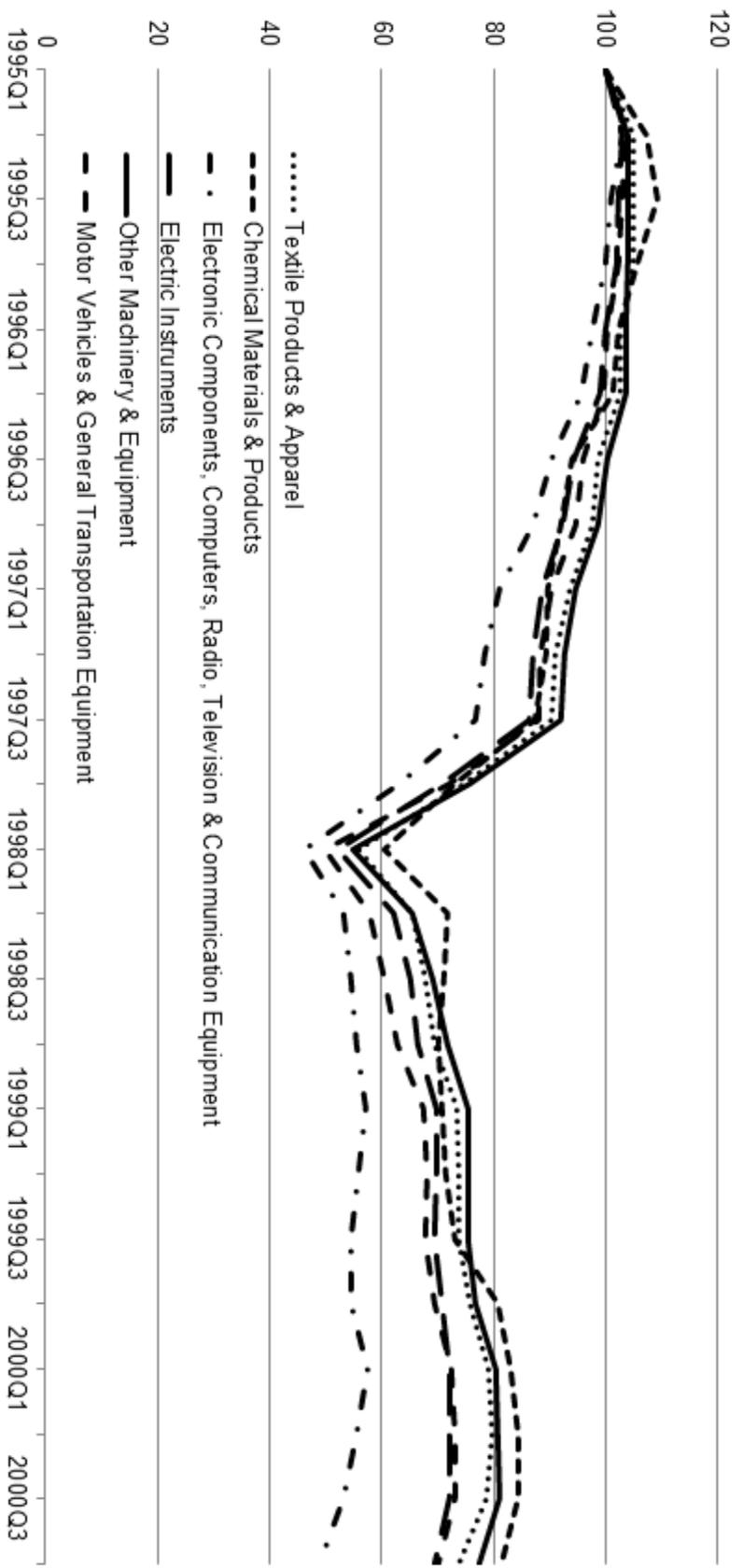
Source: Author's calculation based on manufacturing production index from UN common database, United Nations Statistics Division

Figure 5.10 Consumer price index in local currency, 2005=100



Source: World Bank, World Development Indicators

Figure 5.11 US\$ prices of selected commodities in Korea, 1995Q1=100



Source: for commodity prices, Bank of Korea ECOS online statistics, commodity prices in basic group of Producer Price Index; for exchange rate, IMF IFS

demonstrates the uninterrupted fall in US dollar market price from the third quarter of 1997 to the first quarter of 1998. The average change of the prices for the listed products is 40 per cent in the period. The effects of huge currency devaluation on local prices give the foreign investors an unexpected benefit over the local people who are suffering from the rising price. This would surely give foreign investors armed with US dollars a comparative advantage in terms of purchasing power of the FDI money.

5.5 The land

The crisis had a substantial effect on the real estate sector around Asia. The comparison of urban land prices before and after the crisis shows Korea experienced the largest drop in prices of all kinds of land use in the region. To a lesser extent, similar behaviour in land prices is shown in Thailand and Indonesia. The crisis also affected the land prices in Japan and Hong Kong, while China experienced an increase in land prices (table 5.4).

The sharp fall in land and property prices in the crisis-hit countries has been noticed by a number of authors (for example Raftery and Anson, 2004; Tse, 2000: 167). The property market in Korea was struck particularly hard by the crisis. The largest fall in the price of the industrial land in Korea occurred in the first quarter of 1998. Monthly changes of industrial land price show that it dropped from 1604 US\$ per square mile in November 1997 to 490 US\$ in May 1998, or by almost 70 per cent (table 5.4). The industrial land includes the land used for warehouses, factories, trade units, distribution centres, business units, and so on. The sharp fall in industrial land price greatly reduced the cost of production. In addition to the large drop in land and property prices, rent for offices showed the same behaviour and the price for renting in the bigger cities dropped even

more (Raftery and Anson, 2004: 400).

Data from official sources gives clear evidence about a sharp drop in the land prices in Korea and Thailand (figure 5.12 and figure 5.13). Overall, Korean land prices decreased by 10.6 per cent in the crisis and the land growth rate dropped from an annual average of 0.2 per cent before the crisis to a negative value of 9.5 per cent in the second quarter of 1998, following a quick recovery in 1999 and 2000.

The change of land price in Thailand is a bit more unstable compared to that in Korea. The land price was fluctuating before the crisis, but still, a clear drop appears in the second quarter of 1998 and it was continuously decreasing into the middle of 1999. The overall decrease in land price was 35.1 per cent from 1997Q1 to 1999Q2 (figure 5.13).

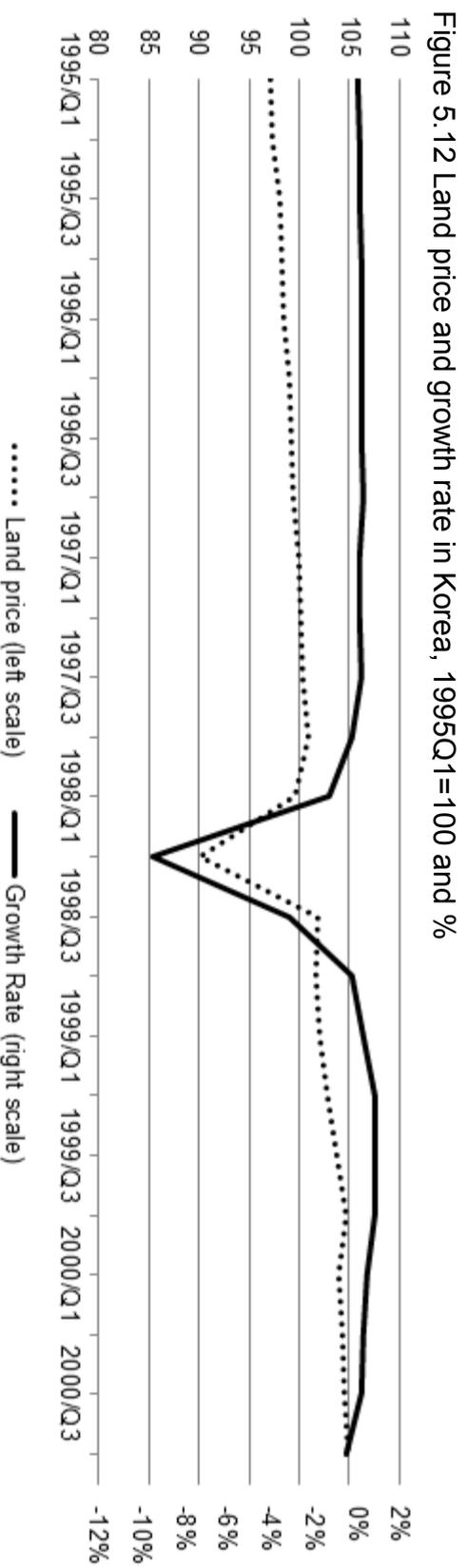
While the sharp drop in land prices would certainly give investors more purchasing power, it is important to determine if the land price had been pushed down to the “fire sale” price, which is below its equilibrium long-term prices (Krugman, 1998c). In one view, the sharp drop in land price is regarded as the bursting of the asset bubble, which was contributed to by excessive exposure to the banking sector. Excessive bank lending to the real estate sector has been noted as an explanation of the Asian financial crisis. It is also regarded as attributing to the asset bubbles in Asian land market before the crisis. Therefore, when the bubbles burst in the crisis, the land price was restored to their long-term equivalent value. Authors holding this view include Sachs and Woo (2000), Koh et al. (2005) and Renaud (2000).

However, Glick (1999: 50) argues that because the repayment schedule at the time of

Table 5.4 Land prices in prime areas in Asia, US\$ per square mile

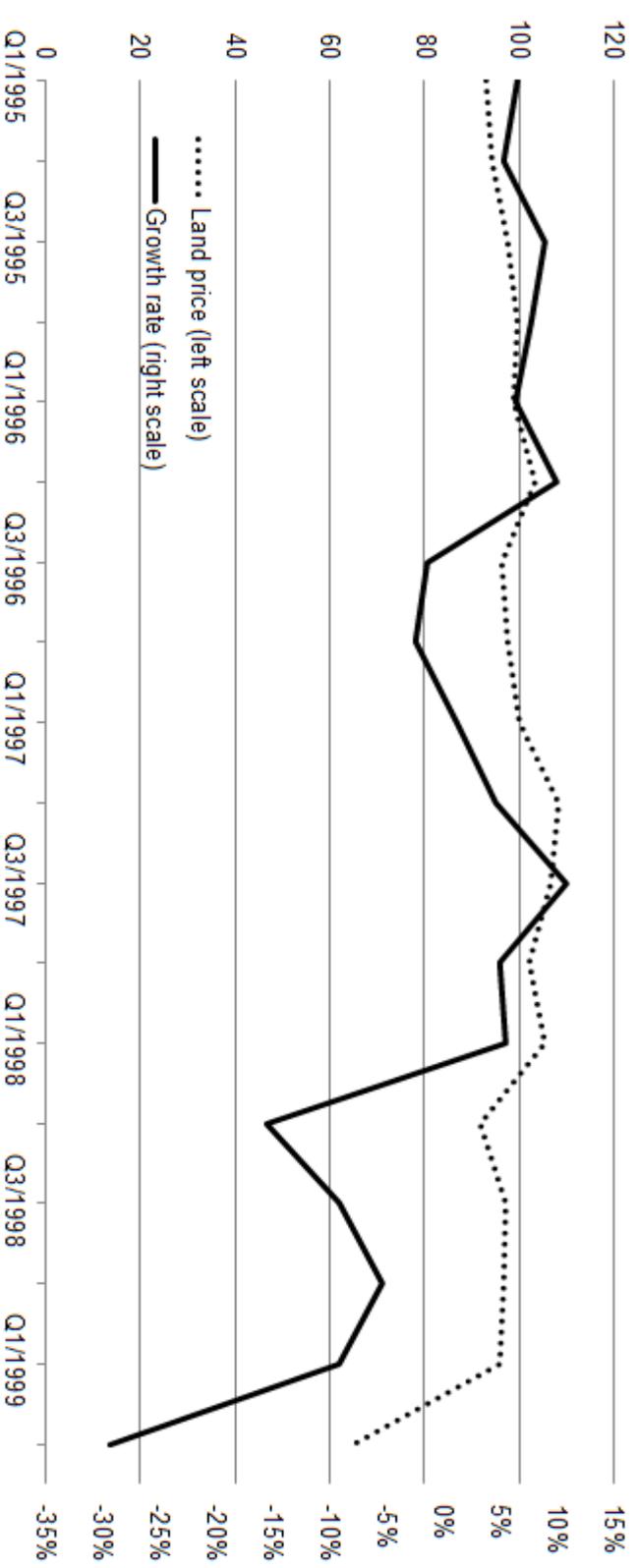
	Time of comparison	Shanghai	Hong Kong	Tokyo	Soul	Manila	Bangkok
Prime commercial land	Nov/97	4250	70898	58750	46302	5000	2198
	May/98	5800	41705	53008	18159	5200	1750
Prime industrial land	Nov/97	100	5561	3046	1604	2000	31
	May/98	150	5561	2748	490	1720	23
Prime residential land	Nov/97	2500	34224	8206	3850	4400	2198
	May/98	3520	30583	7404	1816	3125	1563

Source: Tse (2000: 167)



Source: Bank of Korea, ECOS online statistics

Figure 5.13 Land price and growth rate in Thailand, 1997Q1=100 and %



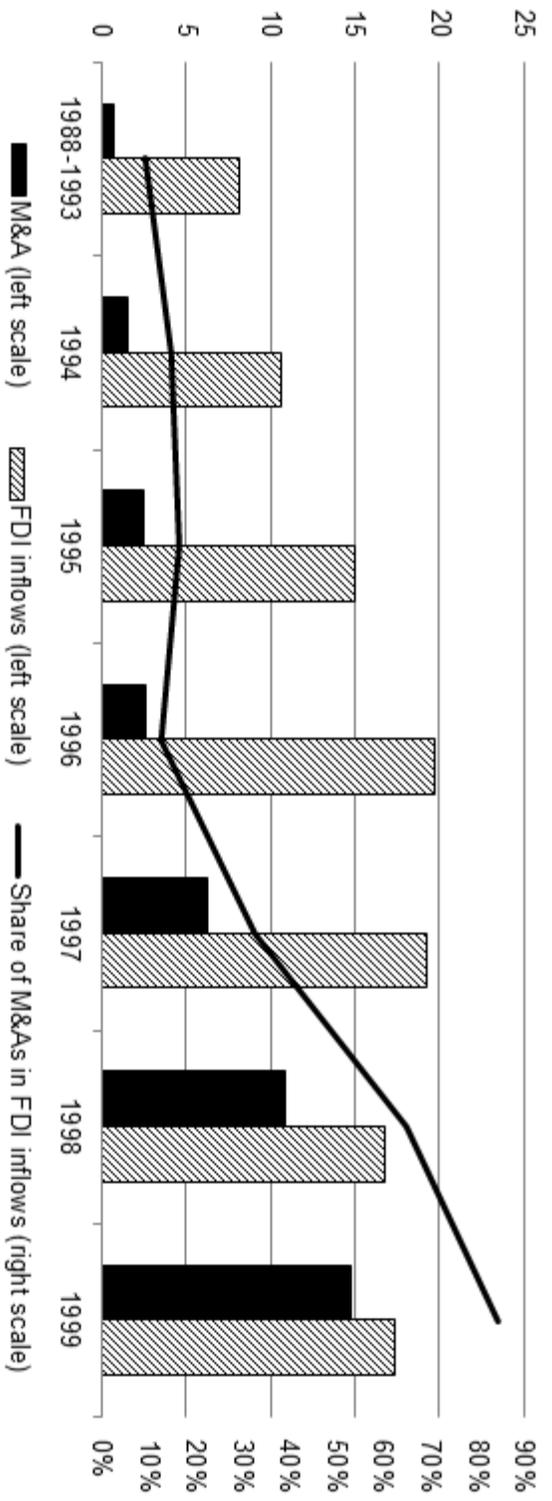
Source: Bank of Thailand online statistics

rising asset prices could only be fulfilled by selling assets at the time of the crisis, large amounts of highly leveraged Asian companies had no choice but to give their collateral. When land is used as collateral, the large amount of land on sale would further reduce the collateral value of land. This gives the idea that the initial drop in land prices might be due to the bursting of the asset bubble, but the further drop in land price can be attributed to the “dumping” sale of land, given the large amounts of highly-levered and credit-constrained firms in the crisis. Therefore, the land price could be driven to its “fire sale” price. The quick recovery in land prices in Korea (figure 5.12) also demonstrates the land price in the crisis was obviously not in its long-term equilibrium prices. The dramatic fall in US dollar prices for both commodity and land would inevitably lower the cost for production and increase the purchasing power of the FDI money flowing to Asia during the crisis time.

5.6 M&A as a form of FDI

After the Asian financial crisis, the majority of FDI into Asia took the form of “mergers and acquisitions” (UNCTAD, 2000a). Ross, Westerfield and Jaffe (1996) suggest a merger refers to the absorption of one firm by another. The acquiring firm retains its name and its identity, and it acquires all of the assets and liabilities of the acquired firm. After a merger, the acquired firm ceases to exist as a separate business entity. Romanek and Krus (2002) indicate that although the term merger and consolidation are sometimes used interchangeably, a merger differs from a consolidation, in which the original companies cease to exist and their stockholders become stockholders in the new company. Consolidation means a business combination whereby two or more companies

Figure 5.14 Cross-border M&As and FDI inflows in the five crisis-affected countries*, US\$ billions and %



*Including Indonesia, the Philippines, Malaysia, Republic of Korea and Thailand

Source: UNCTAD, FDI database; World Investment Report 2000

join to form an entirely new company. All of the combining companies are dissolved and only the new company continues to operate. Aaronovitch and Sawyer (1975:129) stress that “Definitions of merger activity touch the sensitive point of the relation between ownership and control. Merger activity could be broadly defined as all activities which result in either a transfer of control of a firm’s resources to a controlling centre outside that firm, or the pooling of control hitherto exercised separately by independent firms.”

However, an “acquisition” or takeover can be described as the process by which a company behaves like a hunter and pursues another firm, with the aggressive intention to take over it. The term acquisition means the full transfer of all the elements of a company to another, after the announcement of a public offer. The company that buys the other firm has the majority of the ownership of the new combined firm and is able to control the interests that arise. In addition it has to be stressed that acquisitions can be friendly or hostile. A friendly takeover occurs when the board of directors of the two companies agrees to the acquisition, while a hostile takeover is “...where one firm seeks to acquire another without agreement of the people in effective control” (Perman and Scouller, 1999: 214).

Generally, mergers are usually conducted from similar size companies to achieve common goals, while the agreement is required from both. On the contrary, in acquisitions, larger size companies acquire smaller firms, often using aggressive methods, in order to fulfill their own aims. In this study the cross-border M&As are defined as any transaction in assets of two firms belonging to two different economies, whether these two firms are located in different countries or within the same country. The terms

“merger” and “acquisition” or “takeover” in this article are used interchangeably. This is because in many circumstances it is not clear whether one of the two is occurring. However, for certain purpose it is necessary to distinguish between the two forms of business combination.

The Asian financial crisis triggered a wave of cross-border merger and acquisitions (M&A), driving the upsurge in foreign direct investment (FDI) in the second half of the 1990s. Merger and/or acquisitions of domestic firms by international firms increased dramatically in East Asia following the crisis (figure 5.14). FDI inflows to the five crisis-affected countries dropped from \$19 billion in 1996 to \$17 billion in 1999. In contrast, cross boarder merger and acquisitions (M&A), as a component of FDI, rose sharply from 2.4 billion in 1996 to 14.7 billion in 1999. As a result, M&As accounted for an increased share of FDI, rising from 13 per cent in 1996 to 85 per cent in 1999. For the crisis-affected countries as whole in 1996-99, M&A inflows and contributions to FDI were some six times the pre-crisis levels. As UNCTAD (1998a) argues, the much-talked-about resilience of FDI during the crisis time was due entirely to the rapid increase in M&A rather than to the traditional foreign investments in “greenfield” projects.

The motives for mergers and acquisitions are examined in lots of literature. One of the comprehensive discussions about this is by Sabine (1993), who summarizes that the motives for mergers can be grouped into three categories which are: commercial, financial motives and special situations. Each of the three categories consists of different motives that companies have in mind when they merge with each other. This is represented in table 5.5.

Each of these factors is well examined by many scholars. According to Arnold (2002), synergy is the most popular reason for a merger. Synergy is the concept which means two firms combine and increase their value in a way that the combined firm's value will be greater than the sum of its parts. Arnold (2002: 872) argues that the reason why synergy can be achieved from a merged company is probably because complementary markets may enable the combined company to sell more goods, or maybe the ability of the merged firm to share sources of supply or production facilities to improve the competitive position of the firm. Hence the increased value of the merged company may derive from the increase of earnings or from the reduction of costs or even both.

Another motive for M&A is to gain market power. Arnold (2000) argues it is obvious that if customers do not have alternative sources of supply, the firm that has the largest share of the market can gain a monopolistic position and control over the price. So market power is an important reason for company mergers in order to increase its ability to exercise some control over the price of the product. Cooke (1986) found that this motive is closely linked to the economies of scale proposition, because increasing market share usually entails a high level of production, scale economies will be achieved and learning effects will assist in decreasing unit costs.

Hill and Jones (1999) argue because mergers and acquisitions provide the simplest and fastest way for expansion, they are definite means for entering into new markets and new industries. Arnold (2002) mentions that developing the knowledge and experience for a particular market or industry is difficult and requires a lot of time and it involves certain risks as losses may occur during the period and an easy way to quickly enter a new

market is by purchasing an existing firm in that market, which can help avoid high costs and consuming time.

Gitman (1997:821) argues that M&A can also be used for companies that desire diversification in the range of their products. In practice Cooke (1986) finds that firms often acquire others in order to diversify their operations either to increase returns or to lower the risk. This kind of growth makes more sense when good opportunities can be found outside the present business. Diversification is a common reason for the formation of conglomerate mergers and this opinion becomes clearer not only on domestic mergers but specially on cross-border mergers. Samuels, Wilkes and Brayshaw (1995) find there is also a motive for firms to acquire other firms that have undervalued shares or bad management. If the stock price of a company is low in relation to its potential or managers do not have a goal as to maximize shareholders' wealth, the companies may become a target for takeover.

These studies, however, examine the incentives for M&As at the company level, it clearly cannot explain the dramatic increase in cross-border M&As in the time of the crisis. As Krugman (1998c) points out, the surge of acquisitions in the crisis was very widely spread across industries. The individual company may have their own incentives under normal economic conditions. At an aggregate level, the financial crisis should have given foreign companies a general motivation to merge or acquire the firms across all the industries in crisis-hit countries.

Looking at the macroeconomic level of the economies, studies suggest the rapid increase

of M&As in the 1990s is attributed to several factors, including the liberalization of trade and investment, deregulation of financial sector, privatization of government-owned enterprises and relaxation of controls (Chen and Findlay, 2003; UNCTAD, 2000a; OECD, 1998). However, these studies also fail to explain M&As in the crisis as they are focusing on a long term and this study is to examine the problem at the crisis time.

The reasons for the dramatic increase in M&As in the Asian crisis can be summarized to three factors. First, many domestic companies that faced a shortage of liquidity and were forced into restructuring had no choice but to seek a buyer, which provided foreign investors with greater scope for acquiring assets. Restructuring of corporate debt was attempted in Indonesia, the Republic of Korea and Thailand, including promotion of mergers and acquisitions (M&As). Conversion of debt into equity, was sought as a means of restructuring corporate debt and liberalizing FDI in selected sectors, was regarded as new access to sources of management and capital. Allowing takeovers by foreign investors was seen as a viable alternative to bankruptcy (Das, 2000). Mody and Negishi (2001) point out this had been the case particularly for those firms in the non-tradable sectors that could barely benefit from the export growth as a result of currency depreciation. For some financially troubled firms the only alternative to bankruptcy had been to sell their assets. Similarly, Kamaly (2007) notes the massive drop in local demand coupled with credit rationing in the financial crisis pushed firms towards liquidation and bankruptcy, especially for firms operating in the non-tradable sector.

Secondly, the huge devaluation of local currency in the crisis-hit countries and the big slump of commodity prices gave foreign investors a greater ability to acquire local assets.

A number of empirical studies have tried to verify the link between FDI and the exchange rate and most of these studies have confirmed the existence of such a relationship (see for example Caves, 1989; Froot and Stein, 1991; Swenson, 1994 and Blonigen, 1997). Using panel data on developing countries in the 1990s, Kamaly (2007) confirms a positive association between currency depreciation and the dramatic increase of M&A during the time of the Asian crisis in 1997 and 1998. This result is consistent with Froot and Stein (1991) and Gastanaga, Nugent and Pashamova (1998) who argue a depreciation of the host's currency makes its firms look cheaper in the eyes of foreign investors. Mody and Negishi (2001) conclude the increased M&A activity in the crisis-afflicted economies has been largely driven by exchange rate depreciations and lower domestic asset prices.

Table 5.5 Motives for M&A

Commercial Motives	Financial Motives	Special Situations
Synergy	Gearing	Tax advantages
Market power	Bargain buying	Survival
Economies of scale	Earnings per share (EPS)	Ambition
International of transaction	Undervalued shares	Bad management
Entry to new markets		Stock exchange listing
Risk diversification		Licenses

Source: Sabine, M. (1993)

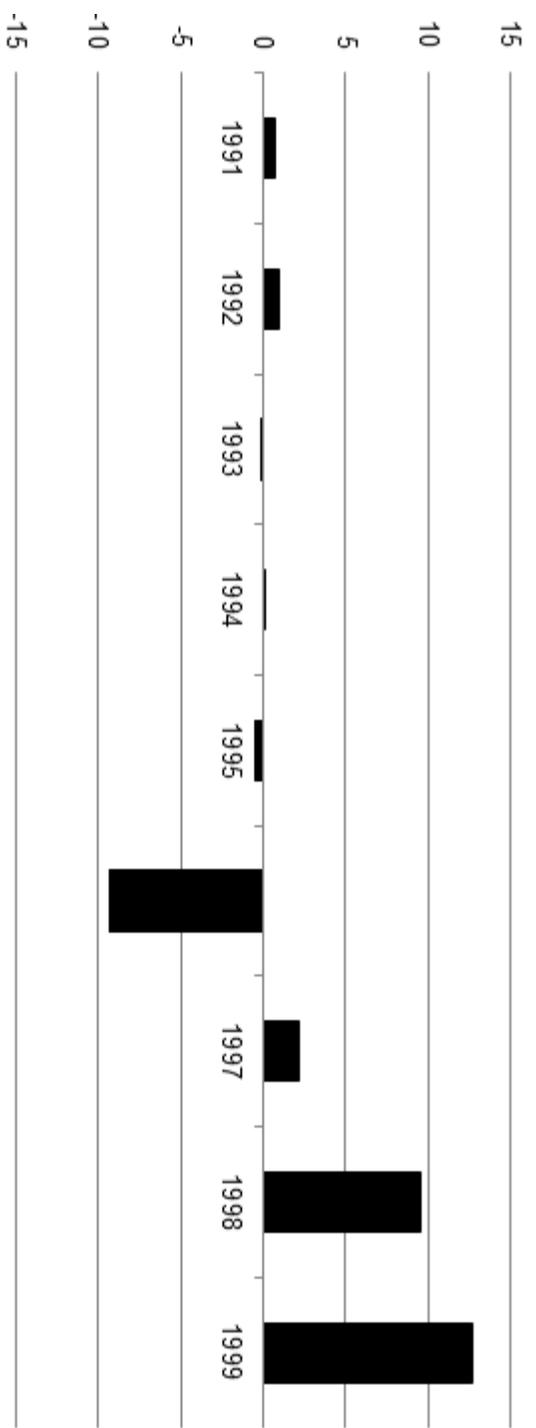
Thirdly, the IMF prescriptions attached to rescue loans in the three worst-hit crisis countries that asked for IMF help, namely, Korea, Thailand and Indonesia cause a rapid relaxation of the foreign ownership regulation and other FDI and/or M&A policies (IMF, 1999: 5; Khatkhate, 1998; Bullard, Bello and Mallhotra, 1998). Merger and acquisition (M&A) activities were regarded as effective vehicles to absorb and transform loss-making companies. (For a more detail discussion on IMF's policies, see chapter 4).

Around all three worst-hit Asian countries, governments had taken comprehensive action to facilitate mergers and acquisitions, both domestic and international, especially in the three worst-affected countries. The huge currency devaluation and policy change toward liberalizing FDI gives great motivations to the foreign investors. Following the dramatic increase of M&A, there was an increasing imbalance of purchase and sale in M&A in the crisis-affected countries (figure 5.15). During the first half of 1990s, the five crisis-affected countries as a whole were roughly in balance of purchasing and selling in M&As. This changed dramatically after 1995. In 1996 the five countries as a whole became a net buyer of foreign companies, reaching a total value of 9.3 billion US dollars. The increase in cross-border M&A purchases was attributed by the strong economic growth in the South-East Asian region, primarily targeting firms in other developing countries in the Asian region.

However, this was suddenly reversed in the financial crisis. The five crisis-affected countries became a net seller in cross-border M&As of 2.3 billion US dollars in 1997. The imbalance of purchases and sales in M&A kept increasing to US\$ 9.5 billion sales in 1998 and US\$ 12.7 billion in 1999. It was not until 2000 when the cross-border M&A sales decreased to US\$ 6.6 billion.

Discussions about the benefits of cross-border M&As in the existing literature include bringing modern operational practices, technology, capital and increasing competition the domestic market and therefore the improved efficiency and profitability of domestic firms (Sufian, 2004; Dopico and Wilcox, 2002; Lall, Urata and World Bank, 2003; Kim and Rajapakse, 2001; Henderson, 1998). After comparing the cash-flow returns of acquired

Figure 5.15 Net sales of cross-border M&As in the five crisis-affected countries, US\$ billions



*Indonesia, the Philippines, Malaysia, Republic of Korea and Thailand
Source: UNCTAD, FDI database

firms in the United States, Harris and Ravenscraft (1991), Hotchkiss and Mooradian (1998) and Kang (1993) conclude that M&A brings wealth gains to distressed firms and that those gains are greater in cross-border M&A transactions than in domestic ones.

Mody and Negishi (2001) argue that since mergers and acquisitions were concentrated in non-tradable service sectors in the Asian crisis, which had traditionally been insulated from competition, they can bring long-term benefits to the crisis countries when they are accompanied by policies to create greater competition in the domestic economy and improve corporate governance. Henderson (1998) argues Asian countries focused on industrialization with little stress on specialization and comparative advantage in the past, and once asset prices had hit bottom in the crisis the focus would be shifted to demerging, unbundling, and specializing, as well as on strengthening core businesses. Given the example of the painful “reengineering” restructuring process the U.S. went through in the early 1990s, Henderson (1998) argues M&A forces restructuring in Asian businesses to put greater focus on profit and shareholder return than before and therefore raise Asia’s future economic performance. Moreover, Henderson (1998) argues M&As represent market forces and government need not play any part in it.

Moreover, Mody and Negishi (2001) argue that given the distress in the domestic economy’s financial sector, the only option for highly indebted, loss-making companies to avoid bankruptcy is to seek an external partner with financial staying power and confidence in the ultimate viability of the enterprise to finance it. Therefore, cross-border M&As can be beneficial to a host country when they prevent potentially profitable assets from being wiped out during domestic financial crises.

This situation has led to a concern in East Asia that these potentially profitable domestic assets are sold to foreign investors at discounted prices or what Krugman (1998c) calls the “fire-sale” FDI, which will result in substantial transfer of domestic wealth to foreigners, thereby involving little prospect of restructuring the troubled sectors. According to UNCTAD figures, Korea experienced the second largest fall in asset and currency prices among the Asian crisis countries: the fall in stock prices (63.1 per cent) in Korea was second only to that seen in Indonesia (94.5 per cent). A fall of 79.8 per cent in the dollar prices of shares in Korea allowed buyers to make their purchases at one-fifth of the pre-crisis cost; in Indonesia, the bargain prices were up to 95 per cent off the original price (Cherry, 2007: 86).

Table 5.6 Cross-border M&A sales in the five crisis-affected countries, current US\$ in millions

	Korea	Indonesia	Malaysia	Philippines	Thailand
1990-97	283	304	305	909	226
1998-2000	6828	889	901	1265	2596
1996	564	530	768	462	234
1997	836	332	351	4157	633
1998	3973	683	1096	1905	3209
1999	10062	1164	1166	1523	2011
2000	6448	819	441	366	2569

Source: UNCTAD, FDI database;

“In 1998, there will be fire sales all over Asia,” predicts Simon Ogus, executive director of Asian Economics at SBC Warburg in Hong Kong. In the wake of the Asian crisis, Henderson (1998: 207) recorded this in his interview with Simon Ogus, who also predicted the fall in asset prices will be extensive but eventually will be met by acquisition interest from both within and outside Asia.

Mody and Negishi (2001) find an inverse relationship between the speed of recovery and the incidence of cross-border M&A in Thailand, Korea and Malaysia. They argue this result does not imply that cross-border mergers and acquisitions have not helped in key distressed sectors as it actually suggests that a larger numbers of cross-border M&As took place in non-tradable sectors with deeper distress and slower subsequent recovery. For example, most mergers and acquisitions occurred in the finance and real estate sectors (30 per cent) in Thailand, together with the heavily distressed wholesale and retail trade sector, which declined most sharply and recovered the slowest. In contrast, companies in the transport equipment sector could take advantage of export opportunities, therefore selling off fewer of its assets due to its greater long-term resilience. However, this also raises the concern of the “fire-sale” FDI because most M&As took place in deeper distressed non-tradable sectors, where companies’ asset value literally declined the most. Kamaly (2007) notes the massive local bankruptcies, together with the collapse of currency, drove the market value of the domestic firms to an abyss. To multinational corporations, these bargains were surely not to be passed up. As Kim and Rajapakse (2001) noted, FDI inflows to the worst-affected countries since the crisis have been in the form of mergers and acquisitions as foreign investors have responded to the opportunities offered by corporate restructuring and the more liberal environment for such acquisitions.

However, it is not easy to evaluate the argument that the Asian assets had been sold at “fire-sale” prices. At the heart of the problem, it is not clear whether these prices were below the assets’ long-term value even though some asset prices dropped precipitously after the crisis (Mody and Negishi, 2001). Regarding the asset prices in Asian crisis, Krugman (1998a) suggests it can be interpreted in two very different ways. Given the

abrupt drop of asset prices in the crisis, there are two assumptions to be made – the prices either moved from overly-high to normal, or from normal to overly-low. First, it could be that the pre-crisis asset value had been inflated by implicit government guarantees and speculation which ultimately failed in the crisis and the assets prices were restored to their long-term equivalent value. In this view, the large number of asset was sold not at “fire-sale” prices but at its equilibrium long-term prices. The second explanation is that given a large number of debts were dollar-dominated, the excessive currency depreciation forced domestic companies to sell assets to pay for short-term debts. According to this explanation, assets were sold at prices below their long-term values or at “fire-sale” prices, and foreign firms that had enough liquidity to purchase these assets which would generate a stream of profits above their liquidation values once the host country’s exchange rate returned to its equilibrium level. Therefore, it involved a transfer of wealth from the domestic economy to foreigners.

These two explanations also relate to the debate over the causes of the Asian crisis. The first explanation is in line with the domestic view of the crisis which states that the vulnerabilities in domestic financial and business sector and the explicit guarantees resulting from the Asian crony capitalism system attributed to the economic bubble, which eventually burst in the crisis. Therefore the crisis led to asset prices changing from over-high to normal. The second hypothesis is consistent with the explanation that international capital flows and speculations attributed to the sudden capital flight out of Asia, leading to dramatic currency devaluation. Therefore the domestic companies were forced to sell assets at “fire-sale” prices to repay their debt, leading to asset price changes from normal to overly-low.

Just like the debate over the causes of the Asian crisis, both the two hypothesis for asset prices are hard to justify. Mody and Negishi (2001) found in the three cases of M&As in Thailand the prices paid by acquirers per share had been around 70 per cent of book value per share. Given the limited information of asset prices in cross-border M&A transactions in the crisis-hit countries, the best way to look into this problem is to examine the change in the numbers of M&A deals before and after the crisis.

The abrupt increase in M&A activities in the crisis-hit countries immediately after the crisis has been noted by several international organizations and recorded in various reports (see for example UNCTAD, 1999b; 2000a; World Bank, 1999b; 2000c; IMF, 1999). Among the crisis-affected countries, Indonesia Malaysia and the Philippines appear to be less receptive to M&As. The Indonesian system does not favour mergers and acquisitions, while Malaysia appears to favour domestic but not international mergers and acquisitions. Malaysia appears to favour domestic but not international mergers and acquisitions (ADB, 2001). Malaysia and the Philippines never experienced a full-blown crisis and applied different restructuring strategies from those in the three crisis countries. Finance companies in Malaysia also faced liquidity shortfalls and the government's policy had been to strengthen the sector through mergers (IMF, 1999). These were mainly domestic mergers and government control of foreign ownership liberalization was still at a similar level in Malaysia. The value of approved projects during January-May 1999 at RM6.4 billion remained at the same annualized rate as in 1998; the value of new FDI applications fell over the first half of 1999 to RM3 billion, compared with RM12.6 billion for the same period in 1998 (World Bank, 2000a: 97). Therefore, foreign direct investment inflows into Malaysia, though traditionally high, had not responded as they

did in Korea or Thailand. The domestic value of M&A sales in Philippines was actually declining after the crisis, while it had doubled in Indonesia and almost tripled in Malaysia from 1997 to 1998. In contrast, the value of M&A sales in Korea and Thailand increased by more than five times during the same period (table 5.6). In Korea it not only increased by 3752.4%, from 8 million in 1997 to almost 4 billion in 1998, but also continued to rise (by 1533%) in 1999. Even larger increase in M&A sales is found in Thailand where it increased from 6.3 million to 3.2 billion from 1997 to 1998, or by 4069.5%, although down to 2 billion (by 37.3%) in 1999. It should be noted that these sales happened in the time during which Korean won depreciated by 47.6% and Thai Baht depreciated by 43.8%.

The comparison of the average value of M&A sales before and after the crisis is more stunning. In Korea, the average value of 1990-97 to that of 1998-2000 increased from 2.8 million to 6.8 billion US dollars, or by 2312.7%, while in Thailand, the corresponding figure shot up from 2.2 million to 2.6 billion, or by 1048.7%. Cross-border mergers and acquisitions were highest in Korea, although suffered less from the crisis and recovered the fastest.

The magnitude of the increase in M&A sales in the crisis-hit countries suggests, therefore, that there must be some systematic incentives for foreign companies to show their sudden interest in the local assets. At this magnitude, it surely cannot happen only in one or a few sectors, for some individual companies. It was large scale aggressive buying due to some collective incentive. Foreign companies' acquisitions of assets had been indeed driven by new opportunities created by policy changes and the firms' greater

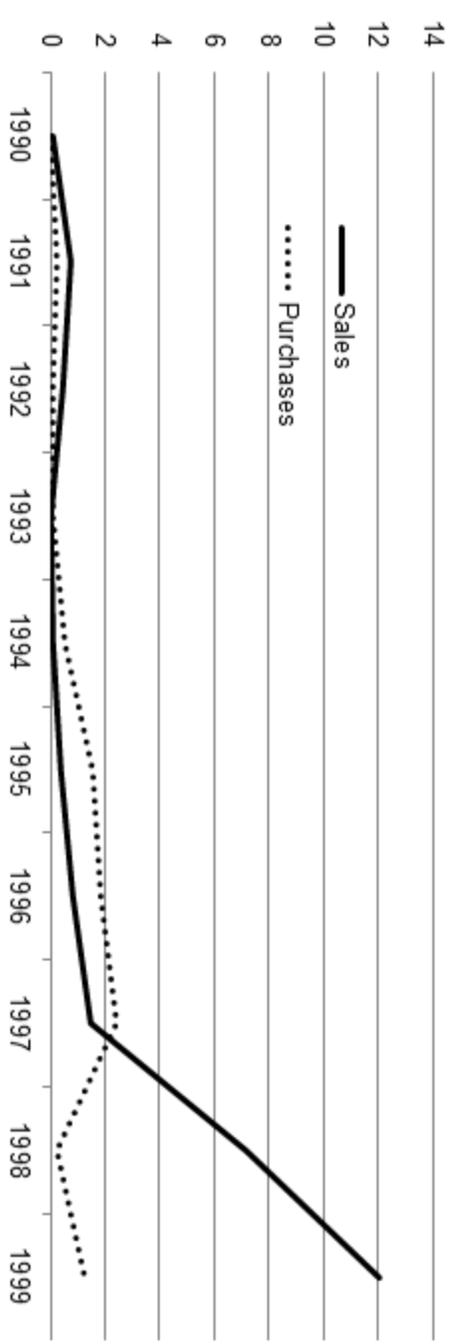
liquidity resulting from foreign exchange depreciations which gave that incentive for all.

This imbalance between sale and purchase in M&As is more obvious in Thailand and Korea (figure 5.16). For the whole decade, the value of both sales and purchases in M&As in Korea and Thailand were not only roughly at the same level, but also much lower (below 2 billion dollars) than the value after the year of 1997, when great divergence occurred, with the sales of domestic assets increasing sevenfold from 1.5 billion dollars in 1997 to 12.1 billion in 1999 while purchases of foreign companies dropped from 2.4 billion dollars in 1997 to 1.3 billion in 1999.

The statistical evidence of a surge in FDI into Asia is clear. Even a quick search of news databases turns up a number of stories about foreign purchases of Asian firms in the wake of the crisis. Titles of the news suggesting a fire sale in the crisis include “Fire Sale of the Century” (*Newsweek*, December 21, 1998), “Asia’s Fire Sale” (*The Australian*, June 19, 1998), “Malaysia and Thailand Offer Bargain Hunter’s Paradise: A Currency Crisis Fire Sale” (*New York Times*, October 8, 1997), “Shopping at Asia’s Fire Sale: Can Managers Avoid Getting Burned?” (*New York Times*, March 1, 1998), “The Real Asian Miracle; The World’s Biggest Going-Out-of-Business Sale” (*New York Times*, May 31, 1998).

The latter article described the opportunities for foreign companies and the takeover deals in the crisis-hit countries, especially Korea. News included “Profiting from Korea’s Crisis” (*Financial Times*, January 05, 1998), “Fed Chief Sees Benefit to U.S. in Asia

Figure 5.16 Sales and purchases in M&A deals for Korea and Thailand, US\$ billions



Source: UNCTAD, FDI database

Crisis” (*New York Times*, January 30, 1998), “Some Managers Manage to Find the Needles in the Global Haystack” (*New York Times*, April 4, 1999), “Korea Puts 55 Companies on ‘Death List’” (*New York Times*, June 19, 1998), “Korea to Sell Control of Bank to U.S. Investors” (*New York Times*, January 1, 1999).

Multinationals would surely not miss a chance like this. One clear example is that “G.M. is poking around Asia looking for good deals or alliances with beaten-down auto makers” (*New York Times*, January 21, 1998). The news quotes the statements by the high officials in GM and Ford showing a clear sign of interest in Asian troubled firms. “We’re clearly getting more aggressive on it because there’s more opportunity...We’re looking at selectively possibly taking pieces” in East Asian auto makers, said Donald T. Sullivan, president of G.M.’s Asian and Pacific operations. The Ford Motor Company had also been exploring deals in Asia. “We’ve been there ...We’re watching everything”, said John M. Devine, Ford’s chief financial officer. Interests of both companies fell on Kia – a bankrupted Korean car manufacturer, when “GM challenges Ford with Kia bid” (*Financial Times*, July 27, 1998) and “Ford says it is best candidate for Kia Motors” (*Financial Times*, September 16, 1998). The takeover battle between General Motor (GM) and Ford in the bidding of Kia gives some clues to the fire sale opportunities for foreign companies, although Kia ended up being purchased by Hyundai – one of the largest Korean *chaebols* under the government’s protection of the local assets due to public pressure including the United Council of the Popular Movement to Save Kia Group formed by 40 civic and consumer groups (Dent, 2002: 194). GM then turned to bidding for Daewoo and bought most of Daewoo Motor’s assets to form GM Daewoo after months of negotiations with the government (*Asia Pulse*, April 30, 2002), although

“protestors occupy hall where GM plans to sign deal for Daewoo Motor” worrying about the possible massive layoffs after the merger (*The Associated Press State & Local Wire*, April 30, 2002).

Another instance is the fire sale of Samsung Motor to Renault, in order to raise liquidity for the parent company (Kim and Jaffe, 2010: 56). The government selected car businesses as the nation’s strategic sector that called for protection in times of economic recession (Jenkins, 1995; Oh, Choi and Choi, 1998). Haggard, Kim and Lim (2003: 320) point out selling major companies in such a “strategic” industry to foreign buyers was unthinkable in pre-crisis Korea. In fact, when Kia went bankrupt in 1997, the government’s instinct was to nationalize the company if a takeover by another Korean *chaebol* could not be arranged. Putting a distressed firm to international bidding is a post-crisis development.

The Korean banking sector also experienced fire sale M&As. Shin (2007: 84) discovers the initial buyers of Korean banks were private equity firms and their strategy was to buy troubled firms cheaply, then sell them quickly for substantial capital gain. Public debate was focused on the sale of Korea First Bank – the seventh largest commercial bank in Korea. The mass media gave fierce criticism that the final sale price of Korea First Bank was practically a “giveaway” (Kim and Lee, 2008: 178). The Korean government spent 12.6 trillion won to clean up the bank’s bad debts and sold the bank to Newbridge Capital – a US-based private equity firm for 0.5 trillion won in 1999, with an agreement to buy any assets that turned sour in the next three years, which cost the Koreans another 5.1 trillion won – ten times higher than the sale value. In early 2005, Newbridge sold the

Korea First Bank to British Standard Chartered bank for 3.4 trillion won – almost seven times of its purchase price (Shin, 2007: 85).

Other controversial M&As in Korea include one of the largest *chaebols* – Ssangyong which was forced to sell major subsidiaries, and the acquisition of Hanbo Iron and Steel Company by US-based Nabors Consortium (Cherry, 2007: 89; Guillen, 2001: 192). Although the government was somehow able to avoid Kia being sold to foreign companies, Ssangyong, the Korea First Bank, Samsung Motors, and Korea's third largest *chaebol*, Daewoo, were all involved in fire sale M&As by foreign companies. While the restructuring of Korean *chaebols* was deemed to be necessary (for example Lim, 2003; Kim, 2002a), a lot of fire sale of domestic assets appeared to be involved in this process.

The large scale asset sales in the crisis-hit countries were marked with considerable political and media debate and the rise of nationalism and social backlash, especially in the three worst-hit countries (Murphy, 2000 for Indonesia; Phongpaichit and Baker, 2001b for Thailand; Cherry, 2007 for Korea; Haggard, 2000; Dent, 2004).

In Korea, wide criticisms came from academia and the media regarding the “fire sales” of Korean companies to foreign investors and the “outflow of national wealth” that accompanied higher levels of inward investment in the crisis. Cherry (2007: 100) highlighted some Korean media sources that reported the rapid penetration of some Korean industries by foreign MNCs. The Han'guk Kyo'ngje Shinmun (Korea Economic Daily) published an article on 10 July 2000 reporting that foreign firms had taken 80 per cent of the shares in the aluminium industry, 75 per cent in the newsprint business and 50

per cent in the petroleum industry. The 25 June 2001 issue of the *Munhwa Ilbo* Newspaper claimed that the Korean food industry was being “devoured” by foreign capital and mainstream industries were being monopolized by foreign-invested firms. Yun (cited in Cherry 2007: 124) notes that although these assertions were challenged by some academics who pointed out that most companies in this sector were joint ventures whose shares were combined of several foreign companies with local businesses, local negative sentiments about foreign investment persisted.

In Thailand, the issue of nationalism had also entered the political and media debate as restructuring, privatizing and sale of assets imply a redistribution of ownership, including foreign ownership (Phongpaichit and Baker, 2001b). Dixon (2004: 60) notes there was gradual disenchantment in Thailand, based on views that the priority given to restructuring the financial sector had been at the expense of the rest of the economy and the government’s apparent increased willingness to sell assets to foreign companies.

Highly emotive nationalistic statements were made by former Prime Minister Chavalit who suggested that allowing substantial increase in foreign ownership was “more difficult for us because we have never been colonized before” (reported in the *Far Eastern Economic Review* 27 December 1998 p.13, quoted in Dixon, 2004: 61). This is the parallel point to what the former Malaysian Prime Minister Mahathir Mohamad has claimed:

[The] fall in our currency’s value has made us poorer, exposing us to the possibility of being controlled by foreign powers. If this happens, we will lose the freedom to run our country’s economy and with it our political freedom also. In short, we will

be re-colonized indirectly ... We cannot give up and surrender. We must be willing to face challenges, willing to sacrifice in defending our freedom and our honor (quoted in Ridding and Kyngé, 1998).

As the reforms progressed, such nationalist statements became much more widely and openly accepted. In Thailand, a number of local businesses and state enterprise workers began to show their nationalist sentiments against foreign companies in large scale of national demonstrations claiming “Stop selling the country!” and they assert for Thailand to accept a huge bailout and stringent economic reform conditions from the IMF, it has “sold its sovereignty” (*Japan Times*, 1999).

It was apparent that there was a substantial element of economic nationalism in many politicians, the business community, trade unions, the bureaucracy and Thai society at large. In spite of these assertions, Dixon (2004: 60) notices that the Thai policies reflected the political dominance of either liberalization/globalization positions, or at least those who could see no alternatives and the Democratic-led coalitions of Prime Minister Chuan Leekpai and Finance Minister Tarrin Nummanahaeminda adhered to a liberalization program and closely followed the IMF prescriptions. “So far, we see them (the Thais) complying pretty well with all the macroeconomic elements of the program,” said Michel Camdessus, managing director of the IMF (*New York Times*, 1997). By February 1998, after over three months in office, the new elected Chuan government in Thailand had gained the reputation of being extremely compliant with the IMF, definitely much more so than the preceding Chavalit government and the Suharto government in Indonesia (Bullard, Bello and Mallhotra, 1998: 512).

This is not to deny that many of the IMF policies were opposed and delayed due to some significant populist opposition and criticism. However, as IMF representative Herbert Neiss put it, “Thailand has turned the corner, along with Korea ... (Thailand has) won a battle or two but not the war yet ... Indonesia is still in the intensive-care unit” (Neiss, 1998). Therefore, to some extent, the Thai government was following a dual track of political strategy, keeping the IMF satisfied, while averting local criticisms.

5.7 Conclusion

Three conclusions can be drawn from this chapter. First, the availability of low-cost production in Asia is the key to attracting investment. Secondly, the crisis had a large impact on local economy, reflected in the dramatic currency devaluation. This in turn led to a large drop in US dollar price of local commodities and land, which are two of the essential factors of production. Thirdly, the mergers and acquisitions as a form of FDI increased dramatically in the crisis, due to the greater scope for acquiring assets as lots of local companies were bankrupted, the greater ability to acquire for foreign investors as local currency were devalued, and the rapid relaxation of the foreign ownership regulation and other FDI and/or M&A policies as a part of IMF conditionality.

To the question of why FDI remained stable in the Asian crisis, it can be argued that because the crisis gives foreign investors certain benefits to keep them stay in Asia. While the crisis and the following recession affected the consumer market in Asia, it lowers the cost of production at the same time. Therefore, foreign investors quickly redirected their sales, switching from host country markets to export markets. MNCs rely on their international production systems which could serve as channels to reach international

markets, which is called “intra-firm” trade, like in the case of Toyota – the Japanese car manufacture that stopped its production in Thai plants due to falling local demands then after two months the production was resumed for export (UNCTAD, 1998a: 8).

The annual report of Toyota (1998: 18) reports that “sales in East and Southeast Asia declined ... because of the slump in Southeast Asia ... we restarted production at our Thai vehicle plants ... Our Indonesian vehicle plants also is operating ... we are increasing vehicle export from our South East Asian plants to raise capacity utilization rates” In the next year’s annual report, Toyota (1999: 22) reported that “Sales in East and Southeast Asian markets ... reflected the continuing economic slump ... We are supporting our local production by diverting output to export markets. Our Thai operations began shipping Hilux pickup trucks to Australia in October 1998”.

Consider the following Toyota scenario: facing recession in the local economy and falling demand, Toyota, among other MNCs, used Asia as an export base to sell their products to other countries that were more immune from the Asian crisis, like Australia. When Toyota received the profits in Australian dollar or US dollar, the money flowed back to the parent company in Japan, while they pay the local workers and production in Thai Baht, which was sharply devalued against Yen and other currencies. This was the worst situation the crisis-hit countries could ever encounter – an outflow of national wealth plus hard-working people earning pitiful wages.

Toyota was not alone in taking advantage of the crisis; the Coca-Cola was also in this camp. Coca-Cola used the opportunity to buy assets in Asian countries, being one of the

first companies to acquire assets in Asia in the immediate aftermath of the crisis in late 1997. Coca-Cola raised its investment in its Thai bottling plant by 5 per cent to 49 per cent, acquired its South Korean and Philippines bottling plants and expanded operations in India, Vietnam and other countries. Coca-Cola saw the crisis in Asia as an opportunity to invest and bolster market share. These are called “strategic opportunities” provided by the crisis (Singh and Yip, 2000: 724).

As mentioned in the Introduction above, the two Chinese characters for the word “crisis” – “*wei ji*” literally mean “danger” and “opportunity”. In the context of 1997 Asian crisis, no two words/characters (danger and opportunity) are more appropriate. Asia faced a period of exceptional volatility and danger in economic, political, and social terms. The meaning of “opportunity” is twofold. For the Asian economies, there is an opportunity for them to restructuring financial and business sector. For the foreign investors and the international capitalists, the crisis provided greater scope and ability for acquiring domestic land and assets through foreign direct investment.

Chapter 6 FDI and the crisis II: the labour effect

6.1 Introduction

In the 1970s, when western capitalists realized the economic boom following the Second World War was over, they feared the long-term recession could lead to social upheaval and even the end of a whole epoch of the capitalist world economy. The new model worked by the OECD, the World Bank, the IMF and other supranational organizations of the western industrial countries means the labour-intensive production should be exported to previous colonies, later called developing countries, or the Third World (Mies, 1998: chp4; Fröbel et al., 1980). Workers in the developing countries, because of their lower wage levels, should produce the machine made consumer goods for the people in developed countries. Meanwhile, agriculture production in developing countries should be modernized through bringing in new technology, in order to produce products for export to the industrial countries. MNCs relocate their factories from industrial countries like US, Germany and Japan to the Export Processing Zones in many East Asian countries including Philippines, Malaysia, South Korea, Thailand and Singapore, particularly in the garment, textile industries and the electronic and toy industry. This historical economic development process is called “new international division of labour” (Fröbel et al., 1980).

The abundant labour force and a large domestic market, combined with lower labour and production costs were regarded as the comparative advantages of the East Asian countries (Shirk, 1996: 191; Yang, 1994: 7). The early stage of Asian industrialization was to make

good use of these advantages, in addition to an overall stable political environment and export-oriented policies to attract more foreign investment, which was considered to be a new source of capital, technology and managerial knowledge (Lall, 1996: 101).

The success of East and Southeast Asian countries in attracting FDI is, therefore, contributed by these two factors. On one hand, industrial countries seek to move production base to developing countries. On the other hand, Asian developing economies need foreign capital, and more importantly the technology and managerial knowledge brought by the capital, to upgrade their industry.

While the promotion of FDI may have contributed to the East Asian industrialization for obvious reasons, it raised the problem of unfair worker exploitation and this problem appeared to be more serious by foreign companies (Grossman, 1979; Lim, 1980). In the Southeast Asian semi-conductor and microchip sector, Grossman (1979) and Fröbel et al. (1980) found evidence of super-exploitation of Asian women who constituted 80 per cent of the work force in factories relocated from Japan and the US. Child labour in Hong Kong (girls as young as eleven or twelve years old) was utilized extensively by US semiconductor firms in the 1960s (Henderson, 1989: 74). The long working hours were another issue. As recently as 1983, average working hours of 48 hours per week was usual for workers in the electronics industry in Hong Kong (Henderson, 1989: 74). Health problems were common for workers including eye-sight problems and muscle related ailments which often forced women to leave their jobs before the age of 30 (Lim, 1980). Fröbel et al. (1980: 350-364) found intensive evidence of super-exploitation of workers in free production zones in East Asia by foreign companies, including extraordinarily low

wages, long working hours and poor working conditions. Mies (1998: 114) argues the consequences of the “new international division of labour” is that export-oriented production takes up most labour time, raw materials, skills and technological development and the workers are increasingly forced to produce toward the demand of markets in industrial countries, not the need of people in developing countries.

The problem of labour exploitation is quite serious in Asia because it is often associated with foreign investments, which the East Asian economies have been promoting for several reasons. First, East Asian industrialization depended heavily on foreign investments and it attracts most FDI flowing into developing countries. In fact, promoting FDI formed an integral part of overall development strategies in these countries (Thomsen, 1999: 5).

Secondly, the FDI inflows at the early stage of Asian development were concentrated in the labour-intensive manufacturing industry, from the MNCs aiming to establish the assembly lines for their products to take advantage of the cheap labour source and lower production costs (UNCTAD, 1993: 47; 1994: 71). Cheng and Hsiung (1998: 121) argue that one of the objectives for East Asian economies to shift from import substitution to export-led industrialization was to draw their under-employed or unemployed population to export sectors. But labour-intensive, export-oriented industrialization entails suppressing labour’s wages for the enrichment of foreign investors and subjecting workers in the Export Processing Zones (EPZs) to abuse and exploitation.

Thirdly, the East Asian governments’ political legitimacy was founded on continuing

economic growth and social stability, and the labour regulation and developmental programs in the 1980s were often at the expense of workers' rights, especially for female workers (Cheng and Hsiung, 1998: 121).

While this might be thought as painful but necessary process for a development take off in the early stages of industrialization, the 1997 Asian financial crisis might put the East Asian economies back to this situation again, that is workers' rights at risk in the face of large amount of foreign capital inflows. This chapter seeks to look into this question in detail. The first part examines the crisis impact on the Asian labour market, supported by extensive use of official statistics. The second part offers an analysis of the benefits and impacts of FDI on Asian labour. It focuses particularly on the problem of labour control of FDI.

6.2 The social effects of the crisis

Employment, unemployment and underemployment

In East and South-East Asian countries, there was obviously a strong relationship between the unemployment rate and economic growth (table 6.1). By 1997, that is before the economic crisis hit the region, economic growth rates of nearly 10 per cent in some years enabled these countries (except Philippines) to achieve low unemployment rates ranging from 0.9% in Thailand to 4.7% in Indonesia. The crisis contributed to the large increase of the unemployment rates which were high by historical standards in these countries. Until 1997, Thailand had experienced a gradual decrease of unemployment rates since the mid-1980s. The crisis, however, dramatically increased this rate in only one year (1997-1998) almost to its level in 1985. Three years after the crisis, the

unemployment rate was still higher than that in the beginning of 1990s. Kang et al. (2001) notice the annual average unemployment rate for Korea during 1990-97 was 2.2 per cent, with very little year variation. The crisis sharply raised the unemployment rate to 6.8 per cent in 1998 and continuously stayed high in 1999. Since the unemployment rate measures the percentage of the labour force that is actively looking for a job, it may underestimate the actual number of job losses if the unemployed workers become discouraged and stop seeking work. For example, Kang et al. (2001) point out in Korea men tend to remain in the labour force while women tend to leave the labour market when they lose their jobs. If these women had not left the labour force, the unemployment rate would have been 7.8 instead of 6.8 per cent in 1998.

Table 6.1 Unemployment rate as % of total labour force in the five crisis-affected countries

	1980	1985	1990	1995	1997	1998	1999	2000
Korea	5.3	4.0	2.5	2.0	2.6	6.8	6.3	4.4
Thailand	0.8	3.7	2.1	1.1	0.9	3.4	3.0	2.4
Indonesia	3.0(1982)	2.2	2.8(1992)	4.4(1996)	4.7	5.5	6.4	6.1
Malaysia	5.8(1984)	6.9	5.1	3.1	2.5	3.2	3.4	3.0
Philippines	4.8	6.1	8.1	8.4	7.9	9.4	9.2	10.1

Source: for Korea and Thailand and for Indonesia 1997-2000 data, ILO LABOURSTA database; for the rest of the data, ILO KILM

Islam et al. (2001: 49) gives a detailed look at the unemployment in Indonesia (table 6.2). Unemployment figures are divided by sex, area, working status, age group, and level of education. They reveal that unemployment affects men more than women. From 1997 to 1998, the number of unemployed men rose by 0.6 million, or 27 per cent, while the number for women rose by about half of that rate (0.3 million, or 13 per cent). Islam et al. (2001: 49) explain this is due to the massive lay-offs in two of the hardest hit sectors –

manufacturing and construction, which mostly employed men. The unemployment affected urban and rural areas equally by 20 per cent, although urban areas maintained much higher unemployment rate than in the rural area.

The number of job seekers who had prior work experiences nearly tripled from 1996 to 1998, while the number of job seekers who had never worked, dropped during the same period. This indicates the demographic of people start to looking for jobs changed dramatically after the crisis. Before the crisis, job seekers were mostly young high school or university graduates looking for their first job. After the crisis, however, more job seekers were those who lost their jobs in the crisis and had to find another job. The number of job seekers aged 30 and above also tripled, many of them had just a junior secondary school certificate. These people were mostly made unemployed in the crisis and had been forced to find another job.

Unlike other crisis-hit countries, the total employment in Indonesia increased rather than decreased in 1997-98. However, this does not in any way mean the employment situation was any less fierce in Indonesia. The sectoral employment data shows that the reason for a total increase in employment was due to the large agriculture sector which absorbed most of the job losses from other sectors, especially the manufacturing sector (table 6.3). Around 3 million workers, or 3 per cent of the total work force, were displaced by the crisis in 1997–98. Job losses came from all sectors of the economy except agriculture and the small transportation and communication sectors. The manufacturing sector was easily the largest loser, accounting for nearly half of all job losses, followed by construction and wholesale and retail sectors. Job losses in the manufacturing sector exceeded 1.0 million

Table 6.2 Characteristics of the unemployment in Indonesia

	Number (millions)				Distribution (%)			
	1994	1996	1997	1998	1994	1996	1997	1998
Total unemployment	3.65	4.29	4.20	5.06	100.0	100.0	100.0	100.0
Male	1.98	2.29	2.26	2.86	54.2	53.3	53.8	56.5
Female	1.67	2.00	1.94	2.20	45.8	46.7	46.2	43.5
Urban	2.14	2.49	2.57	3.10	57.9	57.9	61.2	61.3
Rural	1.51	1.80	1.63	1.96	42.1	42.1	38.8	38.7
Worked before	1.05	0.78	0.77	1.96	28.7	18.1	18.3	38.7
Never worked	2.60	3.51	3.43	3.10	71.3	81.9	81.7	61.3
Age 15-19	1.07	1.39	1.39	1.44	29.2	32.4	33.1	28.5
Age 20-24	1.55	1.65	1.60	1.19	42.4	38.4	38.1	23.6
Age 25-29	0.65	0.77	0.75	0.93	17.7	17.9	17.9	18.3
Age 30+	0.39	0.48	0.46	1.50	10.7	11.3	11.0	29.6
Primary education or less	0.91	1.05	0.98	1.17	24.8	24.4	23.3	23.1
Junior secondary	0.63	0.79	0.74	0.98	17.1	18.1	17.5	19.4
Senior secondary	1.81	2.06	2.11	2.48	49.6	48.2	50.2	49.0
Diploma/University	0.31	0.40	0.38	0.43	8.5	9.3	9.0	8.5

Source: Islam et al. (2001: 49)

Table 6.3 Job losses and absorption among sectors in Indonesia

	1997			1998			1997-98 change	Distribution
	Total	Male	Female	Total	Male	Female		
Total Employment	87050	53971	33079	87674	53901	33773	624	-
Agriculture, forestry & fishing	35849	21960	13889	39415	23871	15544	3566	-
Non-agriculture	51198	32009	19188	48259	30029	18230	-2939	100.0
- Mining and quarrying	897	710	186	675	574	101	-222	7.6
- Manufacturing	11215	6189	5026	9934	5482	4451	-1281	43.6
- Electricity, gas and water	233	214	19	148	131	17	-85	2.9
- Construction	4200	4050	150	3522	3386	136	-678	23.1
- Wholesale, retail & hotels	17221	8404	8817	16814	8245	8570	-407	13.8
- Transport & communication	4138	4023	115	4154	4024	130	16	-0.5
- Financing and real estate	657	447	209	618	412	206	-39	1.3
- Community & social services	12637	7972	4666	12394	7775	4619	-243	8.3

*Note: data showed in this table is based on 1-digit ISIC Rev.2 code; for a detailed structure and explanatory notes, see UN Statistics Division at <http://unstats.un.org/unsd/cr/registry/reggst.asp?C1=8&Lg=1>

Source: ILO, KILM

Table 6.4 Characteristics of the unemployment in Korea

Unemployment by Sex (Thousands)	Distribution of Unemployment by Level of education (%)*				Unemployment rate by age group (as % of total labour force)		
	Less than one year	primary	secondary	tertiary	15+	15-24	55+
1996							
Total	425.5	6.6	12.9	54.4	26.1	2.0	6.1
Male	290.7	6.5	12.7	54.6	26.1	2.3	8.2
Female	135.0	7.4	13.3	53.3	25.9	1.5	4.8
1997							
Total	556.0	7.4	14.0	55.1	23.5	2.6	7.6
Male	351.5	7.4	14.2	55.3	23.1	2.7	9.3
Female	204.4	7.4	13.2	55.4	24.0	2.3	6.6
1998							
Total	1461.2	11.2	16.9	52.4	19.5	6.7	15.6
Male	983.0	9.9	17.1	53.1	20.0	7.6	20.4
Female	478.1	13.8	16.3	51.3	18.6	5.5	12.7
1999							
Total	1353.4	10.9	16.4	52.7	20.0	6.2	13.7
Male	911.4	9.9	16.6	52.7	20.8	7.0	17.2
Female	441.9	13.1	16.1	52.5	18.3	5.0	11.5

*Note: the level of education is based on the ten levels of the International Standard Classification of Education (ISCED) by the United Nations Educational Scientific and Cultural Organisation (UNESCO).

Source: ILO (2001); (2003)

people, with men accounting for around 60 per cent. The construction sector suffered job losses of nearly 0.7 million labours who were primarily male workers, taking up nearly one third of total job losses.

At the same time, agricultural employment increased by nearly 3.6 million (2 million men and 1.6 million women), or 6 per cent of the total workforce, and was mostly supply driven. Workers from other sectors who had been displaced by the crisis accounted for more than half this growth. The rest consisted of new entrants to the labour force, primarily young workers and women seeking work to cope with the crisis. The labour movements from formal and modern sectors into informal and traditional sectors indicates the crisis had much more severe effects in urban than in rural areas. Islam et al. (2001: 49) notice most displaced workers were wage employees and men accounted for nearly 60 per cent of the new agricultural employment, which was predominantly nonwage (self-employment and unpaid family work).

Korea experienced a large increasing rate of unemployment in 1998 (table 6.4). The number of unemployed people increased threefold from half million to 1.5 million. There is little difference between genders in terms of the numbers unemployed, although the figure for men is a little higher than that for women. In terms of education level, people with secondary education certificates suffered more unemployment than others. Kang et al. (2001) notice traditionally most of the unemployed people in Korea are those who have a college-level education than those with a high school education or less. However, the crisis somewhat reversed this situation. Since 1998, the traditionally high unemployment for workers with secondary and tertiary education had started to decrease

while the unemployment for people with primary education or less started to increase. So the unemployment gap between people with high and low level of education narrowed after the crisis.

Moreover, there is little unemployment difference between genders in terms of different education level. But in the less educated group with the fastest increase of unemployment rate, male suffered less than females. This explains the reality that in the manufacturing sector, with the unskilled labour, men are preferred as employees because of their physical strength.

The crisis increased the unemployment rate of the 15-24 age group by a large extent, especially for males. This age group covers mostly young graduates. Pernia and Knowles (1998: 8) and ILO (1998: 16) argue legal restrictions on layoffs, financial difficulties and contracting demand had prompted many employers to introduce a recruitment ban. As a result, the number of unemployed school leavers increased rapidly. When the crisis began, the practice of hiring new graduates from high school and colleges virtually halted, generating a large unemployment pool of new graduates who had trouble finding jobs even when the economy started to recover. The problem of youth unemployment was fully noticed by the Korea government. But Kang et al. (2001) points out although the government initiated a large number of public jobs and internship programs for the new graduates, the public funded programs were not expected to last long. Apart from the reason that unemployment rate data does not include people who have left the job market, Kim (2004:223) argues that unemployment in Korea had been underestimated because the data leaves out millions of daily/temporary workers.

Thailand experienced an even larger increasing rate of unemployment than that of Korea. From 1997 to 1998, the number of unemployed workers rose almost fourfold from 0.3 million to 1.1 million (table 6.5). In terms of gender, the unemployment figures for both men and women increased by four times during this period, and there was little change in the proportion of male and female to the total number of unemployment during the crisis, each accounted for about 55% and 45 % respectively. In Thailand, those who had a primary school education were among the highest level of total unemployment. Mahmood and Aryah (2001: 261) notice Thailand had comparatively low secondary and tertiary school enrolment in the region. Thailand had the second-lowest secondary school enrolment ratios in 1995 (only Indonesia's were lower) and Thailand's tertiary enrolment ratio was only higher than that in China, Indonesia and Malaysia. The low enrolment of higher education in Thailand gives more job opportunities to people who had a higher education certificate. The crisis further enlarged the unemployment gap between those with a primary education and those with higher education levels. While more people with primary education lost their jobs, those who had a tertiary education got more job opportunities in 1998. One explanation is the downward mobility for less educated workers as their jobs were filled by those with more education. Another explanation is the growing demand for college graduates relative to the demand for high school graduates due to the changing economic structure in Thailand.

While the number of unemployed people increased three times, Korea lost more than 1 million employments in 1998, with the employment-to-population ratio decreasing from 60.9 per cent to 56.4 per cent. With economic growth, Korea saw a shift in employment from agriculture to the industry and service sector over the 1990s (table 6.6). With little

Table 6.5 Characteristics of the unemployment in Thailand

	Unemployment by Sex (Thousands)	Distribution by Level of education (%) [*]				
		Less than one year	primary	secondary	tertiary	
1996	Total	5.9	67.0	13.5	13.6	
	Male	3.7	65.7	16.9	13.8	
	Female	167.4	8.3	68.5	9.7	13.5
1997	Total	292.5	4.7	63.4	11.3	20.6
	Male	154.4	2.1	65.6	11.2	21.1
	Female	138.1	7.6	61.1	11.3	20.1
1998	Total	1137.9	3.2	67.0	12.9	16.8
	Male	625.2	2.2	68.4	14.0	15.4
	Female	512.7	4.5	65.4	11.6	18.6
1999	Total	985.7	3.1	71.7	12.3	12.9
	Male	546.4	2.4	70.5	14.9	12.2
	Female	439.9	3.9	73.2	9.1	13.8

^{*}Note: level of education is based on the ten levels of the International Standard Classification of Education (ISCED) by the United Nations Educational, Scientific and Cultural Organisation (UNESCO).

Source: ILO (2001)

Table 6.6 Employment by sectors in Korea, no. of people and % of share

	Total employment		Agriculture		Industry		Service	
	(’000)	%	(’000)	%	(’000)	%	(’000)	%
1990	18085		3237	17.9	6406	35.4	8451	46.7
1991	18677		3057	16.4	6715	36	8906	47.7
1992	19033		2998	15.8	6653	35	9357	49.2
1993	19328		2849	14.7	6484	33.5	9975	51.6
1994	19905		2731	13.7	6606	33.2	10551	53
1995	20432		2535	12.4	6799	33.3	11084	54.2
1996	20817		2429	11.7	6760	32.5	11613	55.8
1997	21106		2385	11.3	6589	31.2	12119	57.4
1998	19994		2481	12.4	5558	27.8	11935	59.7
1999	20281		2349	11.6	5563	27.4	12350	60.9

Source: ILO, KILM

Table 6.7 Employment by sectors in Thailand, no. of people and % of share

	Total employment		Agriculture		Industry		Service	
	(’000)	%	(’000)	%	(’000)	%	(’000)	%
1990	29956		18972	63.3	4071	13.6	8451	23
1991	30292		18066	59.6	4551	15	8906	25.3
1992	31676		19092	60.3	4788	15.1	9357	24.5
1993	31634		17779	56.2	5325	16.8	9975	26.9
1994	31658		17582	55.5	5491	17.3	10551	27
1995	32259		16642	51.6	6112	18.9	11084	29.4
1996	32033		15953	49.8	6342	19.8	11613	30.3
1997	32943		16497	50.1	6165	18.7	12119	31.1
1998	31935		16272	51	5368	16.8	11935	32.2
1999	31903		15370	48.2	5534	17.3	12350	34.4

Source: ILO, KILM

Table 6.8 Sectoral employment by ISIC Rev. 3* in Thailand, thousands of people and %

Sectors (ISIC Rev. 3)	1997	1998	1997-98 Change	Distribution
Total Employment	32943	31935	-1008 (-3.1%)	100%
Agriculture, hunting and forestry	16084	15871	-213 (-1.3%)	21.1%
Fishing	413	401	-11 (-2.9%)	1.2%
Mining and quarrying	46	41	-5 (-10.9%)	0.5%
Manufacturing	3968	3885	-83 (-2.1%)	8.2%
Electricity, gas and water supply	140	163	23 (16.4%)	-2.3%
Construction	2011	1279	-732 (-36.4%)	72.6%
Wholesale and retail of goods	4096	4043	-53 (-1.3%)	5.3%
Hotels and restaurants	1557	1523	-34 (-2.2%)	3.4%
Transport, storage and communications	978	919	-59 (-6.0%)	5.9%
Financial intermediation	346	299	-47 (-13.6%)	4.7%
Real estate, renting and business activities	480	419	-61 (-12.7%)	6.1%
Public administration and social security	939	1065	126 (13.4%)	-12.5%
Education	888	947	59 (6.6%)	-5.9%
Health and social work	352	371	19 (5.4%)	-1.9%
Other community, social and personal services	468	478	10 (2.1%)	-1.0%
Private households with employed persons	158	214	56 (35.4%)	-5.6%
Extra-territorial organisations and bodies	10	9	-1 (-10.0%)	0.1%

*Note: data showed in this table is based on 1-digit ISIC Rev.3 code; for a detailed structure and explanatory notes, see UN Statistics Division at <http://unstats.un.org/unsd/cr/registry/reqest.asp?CI=2>

Source: ILO, KILM

change of employment in industry, the employment in agriculture had dropped steadily by 1% per year since 1990 and the employment in the service sector had been expanding at a rate of almost 2% per year. During the crisis, the industry sector was hit particularly hard, with a 3.4 % decrease in employment share which had been absorbed in agriculture and the service sector. Thus, the agriculture sector experienced an increase in employment in 1998, the first time since 1990. The increase in agricultural employment indicates the traditional sector had provided some buffer to the shock by supplying additional income sources to hard-hit workers.

The similar development pattern of employment structure was found in Thailand in the 1990s (table 6.7). With the employment in agriculture decreasing by about 2% each year before the crisis, employment in industry was growing at 0.7% and employment rose about 1.2 % each year in the service sector. Unlike Korea, Thailand had a larger agriculture sector, in which the number of employed people occupied more than half of the total labour force. The economic development in 1990s in Thailand was indeed a combination of the shrinking of the agriculture sector and expansion in industrial and service sectors, to a larger transformation than that of Korea. Like in the case of Indonesia, the benefit of having a larger agricultural sector is to absorb additional labour to buffer the unemployment effects of a crisis. However, this was not necessarily true in Thailand's case.

Table 6.8 shows the crisis impact on sectoral employment in Thailand. Surprisingly, the agricultural sector did not offer any buffer to the crisis of employment. In fact, employment in the agricultural sector declined by 1.3 per cent. Given the large size of the

agriculture sector in Thailand, it contributed to 21 per cent of the total job reduction, suggesting the agricultural sector did not have the capacity to absorb a large number of those laid-off or unemployed owing to the crisis. One explanation for this is because of the increased mechanization that occurred during the 1990s, which had significantly reduced the amount of labour required for crop cultivation and other farm activities (Coxhead and Plangprophan, 1998). The construction sector was hardest hit in the crisis. More than 70 per cent of the total deduction of employment was in this sector. Manufacturing, wholesale and retail commercial and the real estate sectors also experienced a large amount of job deductions, contributing to 8.2%, 5.3% and 6.1% of the total deduction of employment.

A more detailed structure of industrial employment is presented in table 6.9 for Korea. Employment in Korea was dropping all over industrial activities. Employment in fishing and activities in “Extra-territorial organizations and bodies” experienced the largest percentage change from 1997 to 1998. However, they did not reflect the major change of the labour market because they occupied only a minor proportion of the total number of employment. In terms of the number of people, the largest lay-off occurred in manufacturing sector with 584,000 people losing their jobs, which accounted for more than half of the total deduction of employment. The second largest job losses occurred in construction, which accounted for 38.3 per cent of the total deduction of employment. Employment also reduced significantly in wholesale and retail commercials and the real-estate sector, attributing to 8.7 per cent and 4.0 per cent of the total job reduction respectively.

The majority of the job losses were absorbed in agriculture sector, which accounted for 11 per cent. The number of employment in agriculture rose by 5.4 per cent from 1997 to 1998. Others were absorbed in the public sectors, in spite of the small proportion they occupy in the total number of employment. Employment in public administration and security increased by 15 per cent, largely due to the public works programs initiated by the Korean government aiming to create more job opportunities. The budgets for public works projects amounted to 1 trillion Won in 1998 and 2.5 trillion Won in 1999 (Kang et al. 2001: 116). However, Kim (2002b) shows the newly created jobs would have paid 6 per cent lower wages than destroyed ones even in the absence of downward pressure from the crisis, as most new jobs were unskilled temporary jobs in agriculture/service sector while destroyed jobs were high-wage jobs in manufacturing.

Yoo (cited in Kang et al. 2001) argues the public works program was often criticized, as some projects were considered to be unproductive or even wasteful. The high wage rate for public works was criticized as distorting the labour market and the government cut wages by 6,000 won in response. Moreover, well-off people were able to participate in the program while many poor were excluded because local government often selected participants on a first-come-first-serve basis regardless of the selection criteria.

With the strong economic growth and labour movement from the agriculture to industry and service sectors, the number of wage and salary workers was increasing steadily in Korea before the crisis. The shrinking share of employment in agriculture was also reflected in the lower proportion of contributing family workers who are often widespread in the rural sector (table 6.10). However, the crisis reversed the situation of

Table 6.9 Sectoral employment by ISIC Rev. 3* in Korea, thousands of people and %

Sectors (ISIC Rev. 3)	1997	1998	1997-98 Change	Distribution
Total Employment	21106	19994	-1112 (-5.3%)	100%
Agriculture, hunting and forestry	2276	2399	123 (5.4%)	-11.1%
Fishing	109	82	-27 (-24.8%)	2.4%
Mining and quarrying	26	21	-5 (-19.2%)	0.4%
Manufacturing	4482	3898	-584 (-13.0%)	52.5%
Electricity, gas and water supply	77	61	-16 (-20.8%)	1.4%
Construction	2004	1578	-426 (-21.3%)	38.3%
Wholesale and retail of goods	3915	3818	-97 (-2.5%)	8.7%
Hotels and restaurants	1890	1753	-137 (-7.2%)	12.3%
Transport, storage and communications	1162	1169	7 (0.6%)	-0.6%
Financial intermediation	761	762	1 (0.1%)	-0.1%
Real estate, renting and business activities	1139	1094	-45 (-4.0%)	4.0%
Public administration and social security	648	745	97 (15.0%)	-8.7%
Education	1103	1144	41 (3.7%)	-3.7%
Health and social work	328	360	32 (9.8%)	-2.9%
Other community, social and personal services	944	888	-56 (-5.9%)	5.0%
Private households with employed persons	229	202	-27 (-11.8%)	2.4%
Extra-territorial organisations and bodies	13	20	7 (53.8%)	-0.6%

*Note: data showed in this table is based on 1-digit ISIC Rev.3 code; for a detailed structure and explanatory notes, see UN Statistics Division at <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=2>

Source: ILO, KILM

Table 6.10 Employment by status in Korea*, no. of people and %

Year	Total employment		Wage & salaried workers (employees)		Self-employed workers		Contributing family workers	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
1990	18085	10950	60.5	5068	28.0	2067	11.4	
1991	18677	11405	61.1	5236	28.0	2036	10.9	
1992	19033	11618	61.0	5421	28.5	1993	10.5	
1993	19328	11794	61.0	5451	28.2	2084	10.8	
1994	19905	12325	61.9	5542	27.8	2037	10.2	
1995	20432	12784	62.6	5694	27.9	1955	9.6	
1996	20817	13065	62.8	5811	27.9	1941	9.3	
1997	21106	13226	62.7	5981	28.3	1899	9.0	
1998	19994	12191	61.0	5776	28.9	2028	10.1	
1999	20281	12522	61.7	5841	28.8	1918	9.5	

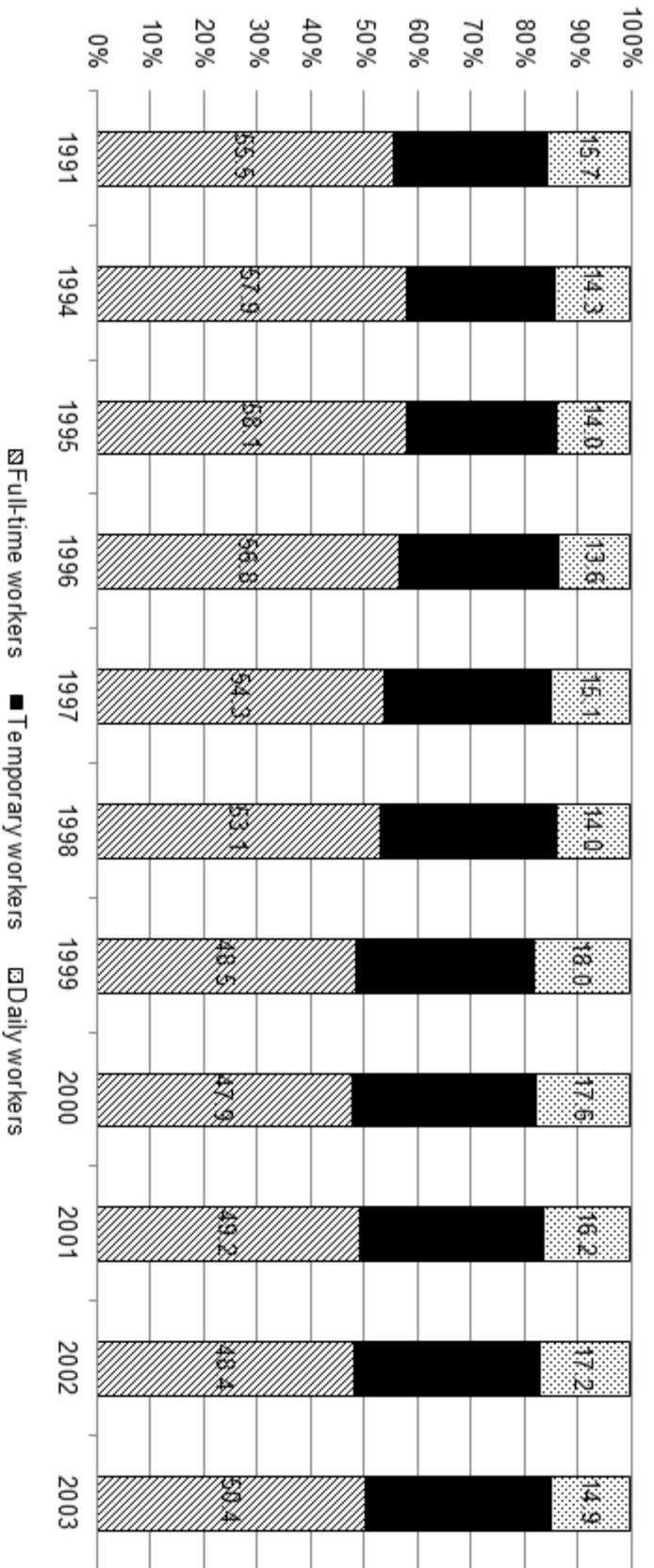
*Note: data showed in this table is based on ILO ICSE code; for more information, see <http://www.ilo.org/public/english/bureau/stat/class/ice.htm>
Source: ILO, KILM

Table 6.11 Employment distribution by hours worked per week in Korea

Year	Total employment		Less than 25 hours		25-34 hours		35-39 hours		40 hours or more	
	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)	('000)	(%)
1990	17979.6	253	1.4	555	3.1	1287	7.2	15884	88.3	
1991	18527.4	287	1.5	550	3.0	1271	6.9	16421	88.6	
1992	18853.3	321	1.7	575	3.0	1285	6.8	16672	88.4	
1993	19099.3	302	1.6	556	2.9	1204	6.3	17038	89.2	
1994	19709.7	332	1.7	552	2.8	1331	6.8	17494	88.8	
1995	20274.3	351	1.7	528	2.6	1212	6.0	18184	89.7	
1996	20704.5	359	1.7	538	2.6	1279	6.2	18528	89.5	
1997	21035.4	410	1.9	646	3.1	1591	7.6	18388	87.4	
1998	19698.4	566	2.9	759	3.9	1500	7.6	16873	85.7	
1999	20066.7	685	3.4	856	4.3	1472	7.3	17053	85.0	

Source: ILO, KILM

Figure 6.1 Employment by types of labour in Korea as % of total labour force



Source: Kim (2004); Koo (2007: 6)

these two groups of workers in 1998, when Korea started to experience a decrease of wage workers and increase of contributing family workers. Thus, the decrease in total employment was largely due to the declining number of wage workers. ILO (2003: 115) points out that the employment-by-status indicator (table 6.10) is strongly linked to the employment-by-sector indicator (table 6.9). The changing number of people in different worker status is in accordance with the shift of labour movement from the industrial and service sectors back to the agriculture sector. This reflects the movement of wage workers from urban companies and factories in industry and service sectors to self-employed family workers in the rural agriculture sector. This is especially true for the lower-income countries like Thailand and Indonesia. Mahmood and Aryah (2001) argue the occupational impact of the crisis was especially severe on wage employees. Wage and salary employment dropped by an estimated 1.2 million, while farm employment picked up by 0.6 million. Wage income overall dropped by an estimated 768 Baht per month. The impact was particularly profound in finance, manufacturing, retail and wholesale trade, and construction, with the adjusted real wage in manufacturing dropping by an estimated 857 Baht per month. The crisis did not significantly affect farm income, however, confirming that an occupational shift took place. Migration to rural areas became a significant strategy for maintaining income among the urban unemployed. Kittiprapas (2002: 13) argues the statistics by Thailand National Statistics Office (NSO) gives strong evidence of reverse migration from Bangkok to other regions. During the survey period of 1997-98, 67 per cent (of which 48 per cent used to live in Bangkok) of the formerly working unemployed migrants, were headed to the Northeast, where a large number of lay-offs and unemployment in Bangkok area was absorbed. From the survey, 94

per cent of unemployed migrants used to work, and nearly half of them were unemployed during October-December 1997.

Most of the returning migrants used to work in the non-agricultural sector (87 per cent) and had a working status as employees (98 per cent). The majority (93 per cent) of them had completed the primary or lower level of education, while the rest had lower secondary education. This indicates that the agricultural sector may not have been suitable for immediately absorbing these returning migrants who used to work in the non-agricultural sector. So the main reason for these returning migrants to live in rural areas during the survey period was to return home temporarily, not for a new job. These migrants, who were low-educated, unskilled workers, would have limited opportunities in the labour markets during the crisis.

The crisis also generated a large amount of underemployment as well as unemployment. Kim and Park (2006: 454) argue after the crisis, Korea was characterized by an artificially low unemployment rate combined with high underemployment, both prompted largely by the financial crisis and concomitant economic restructuring. According to the ILO standards, people whose usual hours of work are below one half of the usual weekly hours for most employed people are considered as a “short” number of hours per week (20 hours in this case), and people whose usual hours of work are above the usual weekly hours for most employed persons are considered as a “excessive” hours per week (40 hours in this case) (ILO, 2003: 235). The distribution of employment among different groups of weekly working hours had been stable before the crisis, with less than a 1 per cent change each year. The crisis greatly reduced the number of people

working longer than 35 hours per week and enlarged the number of those working less than 35 hours per week. In other words, more people had been working for fewer hours since the crisis emerged (table 6.11). The number of people working for 35 hours or less per week (which is considered as underemployment in Korea) as a percentage of total labour force increased from 7.3 to 9.3 per cent, or a 29.2 per cent change from 1997 to 1998 (Betcherman and Islam, 2001: 13 table 1.3).

Kim (2004: 223), Koo (2007) and Kim (2002b) argue Korea had a seriously unbalanced and unstable labour situation after the crisis. As many firms carried out large-scale layoffs or implemented an aggressive early retirement system to reduce their payroll and increase flexibility in their utilization of labour, the number of workers hired on a non-regular or non-standard basis increased sharply after the financial crisis. This can be seen in figure 6.1. The non-regular workers included temporary workers, subcontract workers, dispatch workers, and daily workers. In 1999, they constituted more than half of the total active labour force, which happened for the first time since labour statistics had been compiled (Kim, 2004). This trend has continued, except for early 2003. But Kim (2004: 224) also points out the proportion of irregular workers in Korea is considerably higher than the official rate, because the official total of regular workers actually includes hundreds of thousands of contract, part-time and other contingent workers and that if they are properly classified, the proportion of irregular workers should be 58.4% in 2003. The proportion of irregular workers in the total labour force in Korea was the highest among the OECD countries. In 2000, Korea was 47.9 per cent irregular workers in the total labour force, while the corresponding figure for Spain was 32%, followed by 27% for Australia, 18% for England, 13% for France, and 12% for Japan (Kim, 2004:224).

Koo (2007: 5) points out the growing number of irregular workers and their precarious economic conditions represented a big problem in the South Korean economy. The irregular workers earned about 60 per cent of the average wages of regular workers for the same number of hours worked, and they are excluded from benefits such as severance pay, medical insurance coverage, and other company welfare subsidies that are available to regular workers. Moreover, irregular workers are also barred from joining the company's union that represents regular workers.

Underemployment came about partly because of the fact that a large number of university graduates worked as either day labour or temporary workers which reflected the seriousness of the employment situation in Korea during the crisis, and even after the crisis when the economy started to recover. Kim (2004: 223) argues the survey by Korean Ministry of Labour shows more than 30 per cent of university graduates hired in the latter half of 2000 were temporary workers and more than 40 per cent of university graduates were temporary workers in 2002.

Kim (2002b: 279) points out the public works program offered by the government contributed to the sharp increase in irregular workers. The government sector accounted for 51.2 per cent of the net increase in daily employment in 1998, compared to merely 2.8 per cent in 1997. Kim (2002b) concludes that the use of non-regular workers in the private sector has a strong connection with the cost-reduction hypothesis.

According to its National Statistics Office, Thailand experienced a more serious problem of underemployment than that of Korea. Labour force survey data shows that

underemployment increased from 2.43 million (7.6% of the labour force) in 1997 to 4.41 million (13.7% of the labour force) in 1998. Mahmood and Aryah (2001:267) argue employers in Thailand wishing to avoid severance payments, had an incentive to reduce working hours rather than laying workers off altogether.

More detailed information about weekly working hours are presented in table 6.12, which is usually used as an indicator of underemployment. The number of people working for more than 35 hours was significantly reduced after the crisis. At the same time, the number of people working for less than 35 hours doubled from 1996 to 1997. Similarly to Korea, more people have been working for fewer hours since the crisis emerged.

Kittiprapas (2002: 10) points out the most significant drops were in the construction and finance & real estate sectors, where working hours declined by 38 per cent and 20 per cent respectively. Given the numerous bankruptcies and the closing-down of factories, companies and financial institutions in the crisis, it is not surprising the crisis affected wage and salary workers much more than the self-employed workers. The number of salary workers working for less than 25 hours per week increased by seven times, from 249,000 to 1.4 million people in 1996-97. At the same time, the number of salary workers in 25-34 hours group increased by four times, while the workers in 35-39 hours group dropped by 50%.

In conclusion, with the dramatic drop in employment rates and increase in unemployment and underemployment, the crisis led to a large number of unemployed people either looking or ready to work in the crisis-hit countries. They were concentrated in the sectors

Table 6.12 Employment by status and hours worked per week in Thailand

Year	Status*	Total employment	Less than 25 hours	25-34 hours	35-39 hours	40-49 hours	50 hours or more
		(000)	(000) %	(000) %	(000) %	(000) %	(000) %
1995	T	32258	1598 5.0	588 1.8	2766 8.6	9272 28.7	18032 55.9
	WSW	11544	239 2.1	170 1.5	1458 12.6	5230 45.3	4444 38.5
1996	T	32032	1690 5.3	642 2.0	2876 9.0	10054 31.4	16768 52.3
	WSW	12093	249 2.1	153 1.3	1485 12.3	5541 45.8	4663 38.6
1997	T	19939	1441 7.2	488 2.4	1390 7.0	4512 22.6	12105 60.7
	WSW	32942	2973 9.0	1307 4.0	2101 6.4	9719 29.5	16840 51.1
1998	T	12442	1448 11.6	713 5.7	862 6.9	5435 43.7	3982 32.0
	WSW	20500	1524 7.4	593 2.9	1239 6.0	4283 20.9	12858 62.7
1999	T	31935	2094 6.6	761 2.4	2993 9.4	9793 30.7	16291 51.0
	WSW	11695	397 3.4	238 2.0	1751 15.0	5508 47.1	3799 32.5
	SE	20239	1696 8.4	523 2.6	1241 6.1	4284 21.2	12491 61.7

*Note: T: total; WSW: wage and salary workers; SE: self-employed workers; data showed in this table is based on ILO ICSE code, for more information, see <http://www.ilo.org/public/english/bureau/stat/class/cse.htm>

Source: ILO, KILM

Table 6.13 Nominal monthly wage* in Korea, thousands of Won and % change

	1996	1997	1998	1999
Total	1401.4	1491.8 (6.4%)	1403.6 (-5.9%)	1572.6 (12.0%)
By gender				
Men	1563.8	1659.7 (6.1%)	1549.7 (-6.6%)	1747.1 (12.7%)
Women	985.1	1055.5 (7.1%)	997.3 (-5.5%)	1133.2 (13.6%)
By Sectors				
Manufacturing	1322.1	1357.5 (2.7%)	1233.4 (-9.1%)	1408.4 (14.1%)
Public utilities	1892.0	2124.0 (12.3%)	2288.1 (7.7%)	1736.1 (-24.1%)
Construction	1424.6	1548.1 (8.7%)	1444.5 (-6.7%)	1736.2 (20.2%)
Retail/wholesale	1274.9	1427.0 (11.9%)	1292.9 (-9.4%)	1472.0 (13.9%)
Transport/communication	1264.5	1456.7 (15.2%)	1429.9 (-1.8%)	1372.4 (-4.0%)
Finance/real-estate	1630.5	1695.2 (4.0%)	1578.7 (-6.9%)	1958.9 (24.1%)
Services	1677.7	1818.8 (4.4%)	1796.5 (-1.2%)	1777.5 (-1.1%)
By size of the company				
10-29	1205.2	1328.1 (10.2%)	1236.6 (-6.9%)	1401.3 (13.3%)
30-99	1270.4	1380.8 (8.7%)	1321.9 (-4.3%)	1477.4 (11.8%)
100-299	1336.8	1430.6 (7.0%)	1398.6 (-2.2%)	1536.6 (9.9%)
300-499	1544.3	1686.6 (9.2%)	1598.1 (-5.8%)	1709.1 (7.6%)
500+	1755.6	1777.0 (1.2%)	1637.7 (-7.8%)	1869.6 (14.2%)

*Note: monthly wages in July of each year among firms with ten or more regular employees

Source: Kim (2002b: 284)

Table 6.14 Nominal monthly wage* by sectors in Thailand, Baht and % change

	1996	1997	1998	1999
Total	6252	6742 (7.8%)	7002 (3.9%)	6972 (-0.4%)
Mining and Quarrying	5003	9703 (93.9%)	10229 (5.4%)	8484 (-17.1%)
Manufacturing	5502	5935 (7.9%)	6389 (7.6%)	5907 (-7.5%)
Electricity, Gas and Water	8295	11641 (40.3%)	11362 (-2.4%)	22948 (102.0%)
Construction	7259	6352 (-12.5%)	7404 (16.6%)	8303 (12.1%)
Wholesale/Retail Trade and Restaurant/hotel	6122	6694 (9.3%)	7690 (14.9%)	8045 (4.6%)
Transport, Storage and Communication	6750	7879 (16.7%)	8389 (6.5%)	7759 (-7.5%)
Financing, Real Estate and Business Services	11674	11290 (-3.3%)	11307 (0.2%)	11513 (1.8%)
Community, Social and Personal Services	7223	7430 (2.9%)	7860 (5.8%)	8936 (13.7%)

*Note: Excluding public enterprises

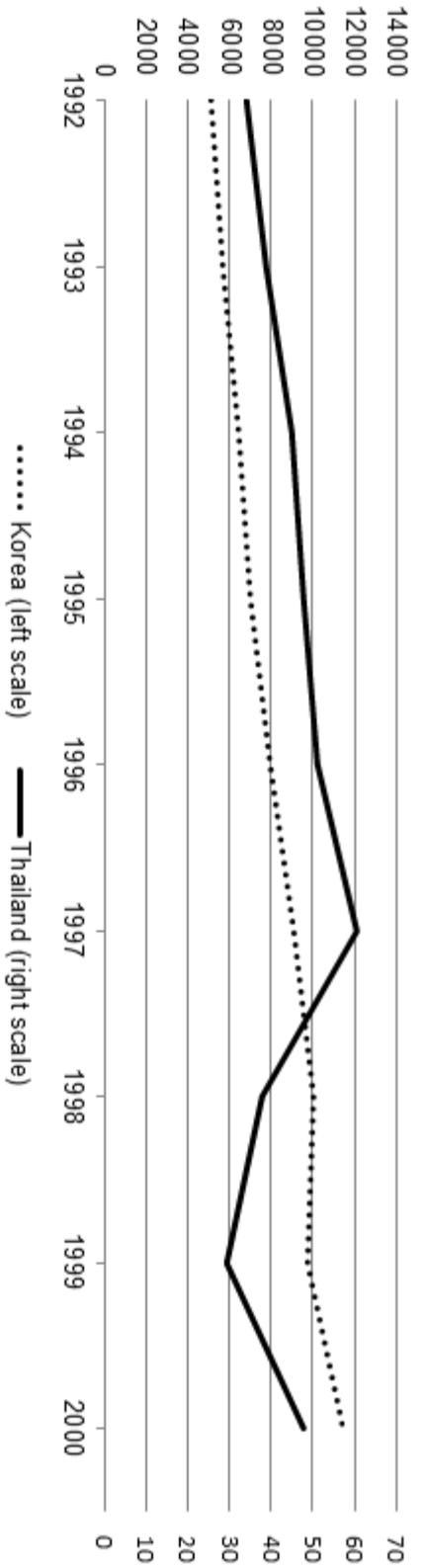
Source: ILO, LABOURSTA

Table 6.15 Nominal and real monthly wage in Thai manufacturing, Baht, 1995=100 and % change

	1996	1997	1998	1999	2000
Wages (Baht)	5502	5935	6389	5907	5839
Nominal wage (index)	110.2	118.8 (7.8%)	127.9 (7.7%)	118.3 (-7.5%)	116.9 (-1.2%)
CPI (index)	105.9	111.7 (5.5%)	120.8 (8.1%)	121.2 (0.3%)	123.1 (1.6%)
Real wage (index)	104.1	106.4 (2.2%)	105.9 (-0.5%)	97.6 (-7.8%)	95 (-2.7%)

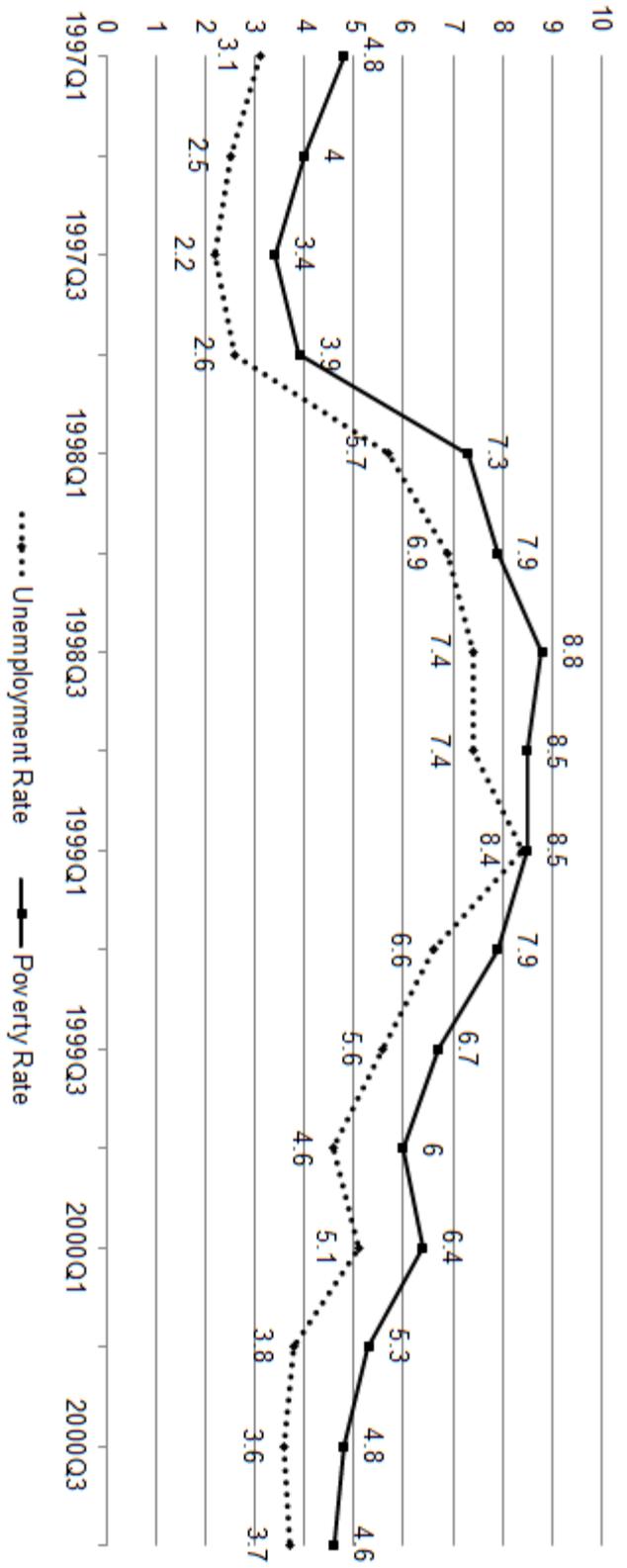
Source: ILO, KILM

Figure 6.2 Hourly labour cost in manufacturing, national currency per hour



Source: ILO LABOURSTA, calculation based on monthly wage and weekly working hours

Figure 6.3 Quarterly unemployment rate and poverty rate of urban workers' households in Korea, % of total population



Source: Park (2001: 10)

that were hardly hit by the crisis, i.e. manufacturing, construction, finance and perhaps the real-estate sector, to a less extent.

Wage, Income distribution & poverty

The effect of the crisis also shows up in wages. The nominal wages in Korean companies with ten or more employees fell by 5.9 per cent between July 1997 and July 1998 (table 6.13). With the inflation rate at 7.5 per cent in 1998, the real wage declined by 12.5 per cent. Wage drops were across all the sectors except the public utilities, in which the wage rose by 7.7 per cent in 1998 and later dropped by 24.1 per cent in 1999. Kim (2002b: 285) argues this is because most utilities are state owned. These state-owned companies were less pressured by the crisis. The 1998 wage increase reflects the poor management in these companies and the 1999 wage cut was due to public pressure imposed on these state-owned companies. In other sectors, wages dropped particularly quickly in manufacturing, retail and wholesale trade, construction and finance and real estate sectors, ranging from 6 to 10 per cent, while little change occurred in the communication and service sectors. Given the numerous bankrupts of banks and companies and those that were brought to the edge of bankruptcies either because of the lack of urgent liquidity or the increasing production cost as a result of inflation, the wages and all kinds of labour benefits dropped in the crisis.

The nominal wage then quickly recovered in 1999. Those sectors that experienced the most wage losses in 1998 recorded the greatest comeback in 1999. A similar pattern is found in the wage structure by company size. Nominal wages fell most in small and large companies in 1998, and increased most in 1999. Kim (2002b: 285) argues this recovery

pattern strongly suggests the increase in wage in 1999 was to compensate workers for the suffering in the last year.

Another widespread impact of the Asian financial crisis on the labour market was the fast increasing inflation which quickly eroded the value of nominal wages. Like in the case of Thailand, the nominal wage increased across all the sectors in 1997 except the construction and finance sectors (table 6.14). There were dramatic increases in the mining and public utility sector. The nominal wage in the mining sector even doubled in 1997.

However, in terms of real wages, taking manufacturing for example, it started to drop in 1998 when the nominal wage was still rising, due to the dramatic increase in inflation (table 6.15). In 1999, even the nominal wage started to drop, by 7.5 per cent and the real wage dropped even more. The rising nominal wage in Thailand could not cope with the fast increase in inflation, so the fall in real wages accelerated from about 1 per cent in 1997 to around 7 per cent in 1998 (UNESCAP, 2002).

On the hourly basis, labour costs in manufacturing in Thailand recorded a decrease by more than 50 per cent from 1997 to 1999 and the crisis also repressed the increasing trend of Korean hourly labour cost in 1998-99, when it maintained at 10,000 won/hour (figure 6.2).

What is more important is that the falling wages and unemployment would inevitably lead to a problem – poverty. In Indonesia, where economic developments were exacerbated by political and social unrest and the worst drought seen in years, the percentage of the population living in poverty increased from 11.3 per cent in 1996 to

16.7 per cent in 1998. In Korea and Thailand, where the middle class was affected the most (Song, 2006), urban poverty increased from 9.6 to 19.2 per cent and from 11.4 to 12.9 per cent respectively over the same period (World Bank, 2000a: 54).

Prior to the economic crisis, poverty was not a serious issue in Korea. However, the crisis had an important role in provoking public awareness of the poverty problem and the necessity for reform of the existing social safety net (Jung, 2009). Korea's poverty problem was the most serious compared to other crisis-hit countries. Korea had the largest increase in open unemployment, a decline in the economically active population, and a large drop in real wages that was only lower to that in Indonesia. Labour mobility from the informal sector was also more limited than in other countries. Korea was also the most urbanized East Asian country, and the negative impact of recessions has been found to have been most devastating for poor urban dwellers (De Janvry and Sadoulet, 1998). Contrary to Thailand and Indonesia, South Korea had a large proportion of population working in the formal sector. Where in Thailand and Indonesia the crisis had less poverty effects to the people living in the rural area, it greatly affected the Korean people whose livings were dependent on wage income. Caffentzis (2005b: 55) clarifies this problem by asking the question of how poverty should be measured. He notices the two contradictory definition of "extreme poverty" offered by Jeffery Sachs: "(a) 'extreme poverty means that households cannot meet basic needs', and (b) extreme poverty means an 'income of \$1 per day per person, measured at purchasing power parity'" and he argues many villagers living in the developing countries may not have "\$1 a day", but have "basic needs", as they have access to land, forests and water that have not been privatized. Caffentzis argues (a) is a "use value" definition while (b) is an

‘exchange value’ definition and these definitions are non-synonymous, because the land that the villagers can use for their families’ subsistence represents an enormous “use value” but cannot be alienated to have an “exchange value”.

There were difficulties in measuring the poverty in Korea because there is no official poverty line and researchers had to find their own criteria and method to measure the poverty (for more information on difficulties to measure poverty in Korea, see Park, 2001). Jung (2009: 57) shows the poverty rate for households based on the minimum living standards at 40 per cent of the median income in 2000, soared dramatically to 9.4 per cent in 2000 - more than a threefold increase in 1996. By adopting the 1994 Minimum Cost of Living as a poverty line, Park (2001) shows that the number of urban workers’ households living below the poverty line, as a per cent of total population, increased dramatically in the crisis (figure 6.3). The poverty rate was kept around 4% before the crisis. However, soon after the crisis, it increase rapidly and peaked at 8.8% in the third quarter of 1998. It was kept high in the whole year of 1998 and 1999, and then began to drop in 2000. The poverty rate for urban workers’ households is also closely related to the unemployment rate, which means the urban workers’ households had been directly affected by economic situation.

Kim (2004: 230) uses a different poverty line – a family of four making less than 928,000 won in 2000, 956,000 won in 2001, and 989,000 won in 2002, and the figure shows the proportion of Korean households living under this line soared from 2.8% in 1997 to 6.4% in 1998 and 7.3% in 1999. When the rates declined in the next three years to 5.4% (2000), 4.4% (2001), and 3.5% (2002), they are still higher than the 1997 rate. Kim

(2004: 230) also points out the problem of relative poverty and “hidden poverty” in Korea. Unlike developed countries, poverty in underdeveloped nations often involves malnourishment and poor hygiene, thus it is a “hidden” problem which affects large numbers of low-income classes and/or unemployed. Judging by the proportion of the households that make less than 40% of the average income of all households, the relative poverty rate jumped from 6.6% to 9.2% in 1998, 9.4% in 1999, 8.7% in 2000, 8.7% in 2001, and 8.0% in 2002.

This relative poverty also gives problems to uneven poverty distribution and social inequality. (Choi and Chung, 2002; World Bank, 2000a: 51). Urban workers’ households experienced different levels of income changes according to their status in the income distribution. The poorest 10 per cent saw their total earnings and labour income decline by more than 20 per cent, while the richest 10 per cent saw their total earnings increased by more than 10 per cent. For the middle income class, the total earnings and labour income dropped by 10 per cent and 8.4 per cent respectively (table 6.16). This suggests the income inequality widened in Korea during the crisis. Changes in expenditure are relatively smaller compared to that of income. This finding is quite similar to that of Cheong (2001) and Woo (2002). That means the low income groups had to spend more rather than saving and became more insecure financially while the high income groups were more cautious in their spending, and saved more at the time of a crisis (Kim, 2002b).

Woo (2002) notes the Gini coefficient of household income climbed by 4 per cent from 0.36 in 1997 to 0.4 in 1998, which is a large difference compared to the previous years.

Table 6.16 Annual changes in income and expenditure of urban workers' households by income deciles in Korea, %

		1997-98	1998-99	1999-00
bottom	Total earning	-23.3	4.3	16.6
	Labour income	-21.4	3.9	13.0
	Expenditure	-7.3	5.7	9.5
Second	Total earning	-14.2	2.1	9.2
	Labour income	-11.4	-1.4	7.4
	Expenditure	-12.2	12.4	0.7
Third	Total earning	-13.1	2.4	8.8
	Labour income	-11.6	1.0	7.8
	Expenditure	-10.7	8.7	10.9
Fourth	Total earning	-11.2	0.8	9.6
	Labour income	-6.9	0.8	11.9
	Expenditure	-6.4	6.5	22.3
Middle	Total earning	-10.0	0.6	8.0
	Labour income	-8.4	0.8	9.0
	Expenditure	-9.3	11.7	7.6
Sixth	Total earning	-9.2	2.2	6.2
	Labour income	-6.3	2.1	7.2
	Expenditure	-12.7	15.7	8.8
Seventh	Total earning	-7.8	2.1	6.0
	Labour income	-4.5	-0.7	9.8
	Expenditure	-7.6	9.4	4.9
Eighth	Total earning	-8.0	2.0	5.7
	Labour income	-5.7	1.5	6.3
	Expenditure	-10.1	11.8	7.9
Ninth	Total earning	-8.1	4.0	5.5
	Labour income	-8.1	5.0	5.6
	Expenditure	-7.9	13.9	10.1
Top	Total earning	11.8	-5.1	1.5
	Labour income	-2.0	1.4	13.2
	Expenditure	-15.8	23.1	20.7

Source: Kim (2002b: 287)

Woo (2002: 188) explains this is because on the one hand, the oversupply of unskilled low-income labourers from rising unemployment in the crisis, made them the highest probability of job losses. On the other hand, companies were reluctant to layoff the highly

valued human resources who they made great investments into, such as skilled workers, supervisors and technicians, even in time of an economic shock.

More importantly, Woo (2002) evaluates the wealth inequality in Korea, which includes the holding of financial assets and real-estates, and concludes that wealth inequality is much more serious than income inequality, due to rapid increases in liabilities among the poor combined with growing real estate holdings among the rich. There are two important elements in Woo's work that are also considered to be relevant in this article. The first is, as Woo (2002: 189) argues, wealth inequality is crucial because the wealth enables its holders to exercise economic power, which is a key causal factor in the economic gap between classes. In this article, this concept is amplified in an international context. The foreign investors armed with US dollars are considered as a kind of economic power against the local cheap labours and the devalued local currency. Thus, the labour-controlling power of foreign investors through cross-border FDI is going to be examined. Secondly, Woo (2002: 189) argues the land prices have played an important role in determining the economic disparity between classes and were a primary source of income inequality. The holding of land and real estate is an important indicator of wealth in Korea. As such, the economic power of foreign investors in this article will also be considered as potential controlling power of local land and real estate, together with the control of labour.

The recovery in the next two years after the crisis seems much less impressive compared to the losses in 1997-98. The recovery favours more low income groups, especially in their labour income. Kim (2002b) argues this is related to the strong employment gains

among unskilled workers in 1999. The recovery in expenditure strongly favoured the high income group, suggesting their savings in the crisis time were precautionary. Kim (2002b) added that the actual inequality was quite likely to be greater than reported since it only includes urban wage and salary workers. If households with no labour income were added to the sample, the inequality would have increased more.

Thailand had a more serious poverty problem than that of Korea. Based on the consumption prices and the population structure, the average poverty line, processed by the Thailand government were 522 Baht per person per year in 1990, 600 Baht in 1992, 636 Baht in 1994, 737 Baht in 1996, 878 Baht in 1998 and 886 Baht in 1999 (Natenuj, 2000: 7). Based on this poverty line, table 6.17 indicates that the percentage of poor dramatically fell from 27.2 per cent (15.3 million) in 1990 to 11.4 per cent (6.8 million) in 1996. As a result of the crisis, more than 3 million people had been pushed into poverty between 1996 and 1999. Natenuj (2000: 7) estimates that the expected number of poor in 1998 and 1999 would have been between 5.4 and 4.7 million if the crisis did not occur, but the actual number is between 7.9 and 9.9 million. The economic crisis had contributed to an increase in the number of poor by 16.2 and 25.3 per cent in 1998 and 1999, respectively. The urban-rural breakdown shows poverty increased in the rural area much faster than the urban area. Rural areas have long been inhabited with the highest poverty incidence with a lot of people earning just above the poverty line wage. The deepening recession resulting from the crisis, spread to the rural area and inevitably put more people's earnings under the poverty line.

Natenuj (2000) also noticed that the people who were suffering poverty did not have the

same degree of poverty. Some were living close to the poverty line while some suffered more. So the number of all poor has been divided into ultra-poor, marginal poor and near poor (table 6.18). It is clear that the crisis affected the ultra-poor and marginal poor more than the near poor, because of their much lower living standards before the crisis and limited ability to escape poverty. The near poor group includes those at/just above the poverty line. They can easily become poor when faced with unexpected economic shocks/sickness/natural disasters.

All in all, the crisis brought enormous effects on the labour market in the crisis-hit countries, ranging from dropping employment, falling wages, increasing unemployment and underemployment, increasing poverty and income inequality. As a result, people were working for less hours or completely lost their jobs. Many of them were paid with pitiful wages, especially for those working in manufacturing and financial sectors. Increasing numbers of people fell into poverty and the majority of the poor people became ultra-poor. Under these conditions, numerous people who had recently been made unemployed were desperately trying to find a job or simply an opportunity to work, either as a full-time employee or a temporary worker, especially those who could not adequately support their children and family and those who did not have sufficient medical care.

Given this situation, it is not surprising that the number of people looking for work or ready for work increased dramatically during the crisis. The number of job seekers registered at the public employment system in Korea jumped from 243,467 people in 1997 to more than 2 million in 1998, while only 7.4 per cent of them found work in 1998 (table 6.19). The job vacancies were clearly not enough for the job seekers. The ratio of

job vacancies relative to job seekers and the ratio of employed people relative to job seekers dropped tremendously. Although the Korean government implemented a number of measures to address market issues, including job protection and creation, vocational training, job placement and stabilization, and social protection, Kang et al. (2001: 115) find that the “net employment effect” of the government’s program only saved 28 per cent of the subsidized employees in nonmanufacturing industries and 21 per cent in the manufacturing industries.

A similar thing occurred in Thailand in 1998. Mahmood and Aryah (2001: 269) indicate that seasonality is an important factor and its impact is high on labour market indicators. So the unemployment figures shown in table 6.20 is divided into two seasons – the dry (winter and spring) and wet (summer and autumn). Kittiprapas (2002: 8) offers the data in the Labour Force Survey conducted by Thailand National Statistical Office. It shows the number of people looking for work increased by three times in the dry season and by more than five times in the wet season in 1997-98, accounting for nearly half of the total unemployed workers.

The Thai government also conducted a number of measures to address the problem, including employment creation, income support, skill training and upgrading. Mahmood and Aryah (2001: 279) evaluate the government’s efforts as “only limited success”. First, the job creation and stabilization programs were implemented too late to stop the increasing unemployment and most job creations were temporary. Secondly, since Thailand had no unemployment insurance scheme, the most important income support

Table 6.17 Incidence of poverty in Thailand, % change

	1990	1992	1994	1996	1998	1999	2000
No. of poor (Million)	15.3	13.5 (-11.8%)	9.7 (-28.1%)	6.8 (-29.9%)	7.9 (16.2%)	9.9 (25.3%)	8.9 (-10.1%)
Percentage of poor	27.2	23.2 (-14.7%)	16.3 (-29.7%)	11.4 (-30.1%)	12.9 (13.2%)	15.9 (23.3%)	14.2 (-10.7%)
Urban/Municipal	6.9	3.6 (-47.8%)	2.4 (-33.3%)	1.6 (-33.3%)	1.4 (-12.5%)	1.3 (-7.1%)	2.0 (53.8%)
Rural/Non-Municipal	33.8	29.7 (-12.1%)	21.2 (-28.6%)	14.9 (-29.7%)	17.3 (16.1%)	21.5 (24.3%)	19.1 (-11.2%)

Source: for 1999 figures, Natenuj (2000: 7); for the rest, ASEAN (2003)

Table 6.18 Ultra poor, marginal poor and near poor* in Thailand, no. in millions and % change

	1990	1992	1994	1996	1998	1999
Ultra poor	9.5	8.2 (-13.7%)	5.5 (-32.9%)	3.7 (-32.7%)	4.4 (18.9%)	5.8 (31.8%)
Marginal poor	5.7	5.2 (-8.8%)	4.1 (-21.2%)	3.2 (-22.0%)	3.6 (12.5%)	4 (11.1%)
Near poor	4.8	4.9 (2.1%)	3.9 (-20.4%)	3.7 (-5.1%)	3.7 (0.0%)	3.4 (-8.1%)

*note: Ultra poor represents group of people earning income below 80% of the poverty line. Marginal poor represents those earning income between 80-100% of the poverty line. Near poor are those earning income between 100-120% of the poverty line.

Source: Natenuj (2000: 10)

Table 6.19 Job seekers at public employment service agency in Korea

	Vacancies (A)	Job seekers (B)	Employed (C)	Ratio of A/B	Ratio of C/B
1994	225652	148597	28141	152	18.9
1995	196319	116147	20938	169	18.0
1996	215925	150668	20939	143	13.9
1997	245223	243467	36425	101	15.0
1998	410005	2130687	157442	19	7.4

Source: Kang et al. (2001: 124)

Table 6.20 Job seekers in Thailand

(dry season)	1995 Feb	1996 Feb	1997 Feb	1998 Feb
Total unemployed	723.5	641.3	697.9	1479.3
- Looking for work	167.8	119.6	179.6	402.8
- Available to work	555.7	521.7	518.3	1076.5
(wet season)	1995 Aug	1996 Aug	1997 Aug	1998 Aug
Total unemployed	375100	353948	292571	1137982
- Looking for work	100559	110159	96447	476295
- Available to work	274541	243789	196124	661687

Source: Kittirapras (2002: 8)

Table 6.21 Potential effects of inward FDI on the quantity, quality and location of employment

	Direct		Indirect	
	Positive	Negative	Positive	Negative
Quantity	Adds to net capital and creates jobs in expanding industries	Acquisitions may result in rationalisation and job losses	Creates jobs through forward and backward linkages and multiplier effects in local economy	Reliance on imports or displacement of existing firms results in job loss
Quality	Pays higher wages and has higher productivity	Introduces practices in e.g. hiring and promotion that are considered undesirable	Spillover of "best practice" work organisation to domestic firms	Erodes wage levels as domestic firms try to compete
Location	Adds new and perhaps better jobs in areas with high unemployment	Crowds already congested urban areas and worsens regional imbalances	Encourages migration of supplier firms to areas with available labour supply	Displaces local producers, adding to regional unemployment, if foreign affiliates substitute for local production or rely on imports

Source: UNCTAD (1994: 167)

measure is the severance pay, which according to the 1997 Labour Protection Law, equals to the equivalent of 10 months of the employee's salary. However, the compliance of the severance pay scheme was low as the numerous failing companies often lacked the money to make the payments.

Mahmood and Aryah (2001: 276) argue there is evidence showing that none of the retrenched workers had been given any severance pay from some of the small companies and some of them were not even given their last paycheck. Yet there is another problem that the severance pay scheme is limited to the formal sector, leaving workers in the informal sector unprotected. The income support measures also included direct transfer of capital, tax and utility price cuts, price support for rice, and extension of health care and educational subsidies. (Mahmood and Aryah, 2001: 281) argue the crisis had made it very difficult for the government to meet its obligations, especially since the budget deficit needed to be cut to meet the conditions of the IMF loan.

It is commonly known that developing countries had a problem absorbing the abandoned labour with their limited economic resources (UNCTAD, 1994: 165) and although the East and Southeast Asian developing countries did well in reducing poverty and improving living standards and social environment in the 1980s and early 1990, the crisis put them into a much more difficult situation in absorbing the local labour force, fighting inflation and reducing poverty. This is especially true in the labour-abundant, resource-poor crisis-hit countries like Thailand and Indonesia.

6.3 FDI and Asian labour

FDI, wage and employment

One of the benefits of inward FDI on the local labour market is that the MNCs tend to pay higher wages than the domestic companies in host economies (OECD, 2008: ch 5; UNCTAD, 1994: 202; Lipsey and Sjöholm, 2006). Much empirical evidence seems to supporting this argument. Aitken, Harrison and Lipsey (1996) conclude MNCs paid higher wages than local companies in Venezuela and Mexico. Lipsey and Sjöholm (2006), Hill (1990) and Manning (1998) give strong evidence that foreign companies paid higher wages in Indonesia. However, Rama (2003) finds that the impact of foreign direct investment on wages fades over time and it has no significant effect on wages after five years. Another problem is that foreign direct investment affects the distribution of the wage. The UNCTAD (1997a: 197) claims:

[A]t the aggregate and industry levels, the workforce directly employed by foreign affiliates enjoys superior wages, conditions of work and social security benefits relative to the conditions prevailing in domestic firms ... Particularly in developing countries, the higher wage levels in foreign affiliates are likely to be an influence for raising wages, at least of certain kinds of labour.

While the “certain kinds of labour” is not clearly defined in the UNCTAD report, Gopinath and Chen (2003) found evidence of increased wage inequality between skilled and unskilled labour due to FDI flows into developing countries. While something of a consensus exists over the positive association between openness and growth (Rodrik, 2001), there is less agreement about who gains within societies. In the context of Asia, MNCs seem to benefit the labourers in host countries with higher wages, but they are also

involved in widening social inequality. Tomohara and Yokota (2007) examined FDI flowing into Thailand and conclude FDI caused wage inequality due to FDI-led skill biased technological change. Drawing on a conclusion based on effects of FDI on wages in five East Asian economies and the effects of foreign ownership in five African countries, Velde and Morrissey (2002) argue foreign owned firms tend to pay higher wages in developing countries, but skilled workers tend to benefit more than less-skilled workers. In another study by Velde and Morrissey (2004), the empirical evidence in five East Asia economies, namely, Singapore, Hong Kong, Philippines, Thailand and Korea show that FDI has no effect on reducing wage inequality and indeed, FDI has raised wage inequality in Thailand. Their finding is in contrast with Wood (1997), who suggests that FDI in low-skilled abundant countries locates in low-skilled intensive sectors thereby raising the relative demand for low-skilled workers and hence reduce wage inequality between skilled and low-skilled workers.

Another potential benefit of inward FDI is that the job opportunities it brings could increase the employment in host countries (UNCTAD, 1999b; OECD, 1998; 2002). This seems to be true especially in the developing countries. Asiedu (2004) shows inward FDI from US MNCs had positive effects on the employment in Sub-Saharan Africa (SSA) countries. Similarly, Lipsey (2004) found inward FDI from U.S. MNCs contributed to the increase of manufacturing employment in a number of developing countries. Employment did not just increase in line with rising level of foreign investment, it also increased due to the indirect employment effect of inward investment through the upward effects on the supplier and services and the downward effects on other local purchasers (UNCTAD, 1994: 164; 1999b: 261; OECD, 1998: 60).

UNCTAD (1994) argues the MNCs not only have direct and indirect effects on employment, but also have positive and negative dimensions which often occur at the same time. The complexity of employment effects (shown in table 6.21) makes it hard to estimate the overall impact of FDI, which depends upon the net balance between job loss and job creation by the MNCs. The potential effects are not only on the size of employment, but on the quality and location of jobs as well. Drawing on the conclusion of a number of relevant studies in the 1970s and 1980s, Baldwin (1994) concludes there is no firm conclusion warranted about the net employment effects of direct foreign investment. The employment impact of FDI is dependent upon several factors, for example, the type of investment, i.e. greenfield investment or mergers and acquisitions (M&As). Greenfield investment involves the creation of new factories, equipment and employment, while the M&A is simply a change of ownership (UNCTAD, 1994). The employment impact also depends on whether the MNC substitutes the domestic production by driving local companies out of the market. As pointed out by Bellak (2004), the crowding out of weak domestic firms by foreign entry could lead to some short-run job losses as a result of the competition effect. Despite considerable inflows of foreign capital to Vietnam in the 1990s, Jenkins (2006) argues the direct employment generated has been very limited, and the indirect employment effects have been minimal and possibly even negative because of the limited linkages which foreign investors create and the possibility of “crowding out” of domestic investment.

Besides, how domestic companies, national policies and labour markets respond to the particular type of inward FDI may also alter the employment outcome. Dunning (1994) argued that the engagement in backward linkages by MNCs in the host economy could

result in some job losses in domestic supporting industries due to low local sourcing by MNCs. Wong and Tang (2008) argue an increase in FDI inflows could lead to higher employment in the host country if it complements with domestic investment. However, they found the presence of MNCs has lower propensity to establish linkages with local industries in Singapore, so there is little relationship between the inward FDI and the increase in employment in Singapore. They suggest the government should assist local companies to tie up with foreign partners and develop manpower with the skills needed by the wholly owned subsidiaries of foreign corporations in order to increase local sourcing. A study on creation of employment opportunities by FDI during 1985-2008 in Pakistan, India and China by Rizvi and Nishat (2009) suggests that FDI should not be expected to create employment opportunities in any of the three countries directly and FDI enhancement policies must be supplemented by the other measures to stimulate employment growth. Another study on the employment impact of large FDI inflows in Latin America by Ernst (2005) also suggests that the FDI did not have much contribution to employment creation, even in the manufacturing sector – the most important destination of FDI inflows.

Ernst (2005) attributes the negative employment effects of FDI to three reasons. First, it can be explained by the form of investment. Most investment, in particular in Argentina and Brazil went into already existing companies as a result of privatization, deregulation and increased M&A, especially in the service sector. Secondly, FDI in the service and manufacturing sector led to increased competitiveness which is often combined with restructuring strategies involving modernization and rationalization measures in order to increase productivity, leading to labour shedding. Thirdly, FDI mainly went into low to

medium labour-intensive sectors in manufacturing where MNCs made only little contribution to employment creation. Even though “old” capital-intensive industries, such as automobiles and chemicals, were major recipients of FDI, these sectors experienced an overall decline in employment in the 1990s. So the overall employment effects of FDI tend to be negative.

In the context of Asia, the OECD data show that inward FDI contributed to a large increase of employment. A quarter of paid employees in manufacturing in Indonesia were hired by foreign affiliates in 1985. The foreign-dominated electronics sector in Malaysia employed almost 300,000 people in 1994, compared with only 600 in 1970 and 85,000 in 1984 (OECD, 1998: 59). Drawing on the experience of East and South-East Asia and China, UNCTAD (1999b: 263) argues countries with abundant low-cost labour that establish export-oriented trade regimes and an environment conducive for FDI can promote significant employment generation by attracting export-oriented activities. Lipsey, Sjöholm and Sun (2010) found positive relationships between foreign ownership and the growth rate of employment in Indonesia. Baumüller (2009: 19) argues FDI has helped to create jobs in Southeast Asia, although to varying degrees across countries, sectors and the wider economy.

Sibunruang and Brimble (1988) examine the direct employment effects of MNCs in the manufacturing sector in Thailand and found that 600 foreign firms hired just over 180,000 people, accounting for only 0.7 per cent of total labour force and 8.8 total employments in manufacturing sector in 1985. They conclude the employment effects of FDI was not as large as normally thought, but their share of total employment was much

higher in certain industries such as chemical and petroleum, non-electrical and electrical machinery, and textile and rubber products.

FDI and Labour control

One of the dramatic changes in the global manufacturing sector in the second half of the twentieth century is the internationalization of production. Before that, finished goods were manufactured and sold by the same company within a country, with excess production often exported to foreign markets.

At times, the efficiency-seeking producers in industrial countries found it expedient to set up plants in foreign developing countries, in order to take advantage of cheap labour sources and to avoid tariffs and other trade barriers. In recent decades, with development of transportation, information and communication technology and several decades of GATT rounds and a decade of WTO governance, the shipping and communication costs and trade barriers have been largely reduced. More and more major corporations, based in industrial countries, such as Japan, Europe, North America, move their factories to the developing world, including East Europe, Africa, Latin America and Asia, especially for the garment and semiconductor industry (Moran, 2002; Fung, O’rourke and Sabel, 2001; Lipschutz, 2005; Gereffi, 2002).

This internationalism of the production process is called “outsourcing”; it means subcontractors in other countries manufacture certain parts of product which are then brought to an assembly line while the home company is focused on the design of the product (Lipschutz, 2005: 67). Depending on the item, the company may sign contracts

with a number of subcontractors, often in different developing countries to manufacture or assemble the products. Subcontractors may link up with even smaller factories for special tasks. The parts are then sent to another plant, where they are assembled into the final item and the product is packaged for shipment. The contracting company arranges for a distributor to receive the shipment and send it on to retailers. The contracting company itself does not have to invest in production, shipping, and retailing hardware or infrastructure. If the market for a particular product, or all of them, turns sour, the company can simply stop ordering and use up existing stocks. It has no long-term commitments to any subcontractors but only its shareholders (Klein, 2000, for the case of Nike; Rosen, 2002, for American apparel industry; Mazurek, 1999, for semiconductor industry). Giving the example of Asian production for the international textile and apparel market, Gereffi (2002) argues that the outsourcing process led to a new international division of labour, which is based on increasingly complex commodity chains and has become the rule of international manufacturing.

Many manufactured items, especially the electronic and garment products sold on the global market these days, are made or assembled in developing countries. Although this has made good business sense, the outsourcing of production to the developing world has resulted in criticism regarding the effects on the local labour markets by MNCs. First, the lack of long-term commitments between the contracting company and its subcontractors brings instability to the local labour market. Take the global apparel market for example, Bonacich and Appelbaum (2000: 9) point out that much of the apparel industry is driven by fashion that can change quickly and the sales of fashionable garments are highly volatile. The production of apparel is a risky business, which discourages heavy capital

investment. Apparel companies want to make sure that any demand is fully met, without worrying about overproducing garments that fall out of fashion. Thus, the industry is very sensitive and responds quickly to changes in consumer taste. When a particular item is in fashion, the subcontractors have to make every effort to meet the need of market and bring wealth to the contracting company, which sometimes leads to forced overtime for local workers. When it is out of fashion, the company can simply stop ordering which drags down its subcontractors, leading to massive lay-offs. Moore (2007) notes that much of the literature on topics of East Asian development written by Western authors is in a prescriptive tone with detailed recommendations for economic and political development to developing countries including South Korea. These literature (i.e. Yusuf and Evenett 2002; Kang 2002; Haggard et al. 1994) comes out of a liberal tradition that accepts the inevitability of globalization and recommends increased liberalization of markets, deregulation of trade and investment barriers, privatization of local services, and flexibility of labour markets, which all seem to help giving easy access to outsourcing for the MNCs. The rise of MNCs, who are ‘the most important source of international economic exchange’, have inspired a global transition to ‘flexibility’ (UNCTAD, 1993). After the Asian financial crisis, Korean economists found that foreign investors require flexibility of labour and that Korea had some work to do in this regard. A flexible labour force was one of the first objectives to invite inward FDI and to meet the expectations for conditionalities applied by the IMF package (Sohn and Yang 1998: 18). Therefore, Korea brought in new laws and carried out “*chaebol* reform” to fulfill the IMF’s requirements for job market flexibility (Moore, 2007: 103). The Korean National Assembly in early 1998 began to make laws that were designed to “make layoffs easier” (Strom, 1998). The

law eliminated the requirement for court approval for company layoffs and allowed multinational corporations a “flexible” work force.

Another problem concerned the real or alleged unjust exploitation of workers in developing economies by multinational corporations (MNCs) and their suppliers. Debates mainly come between those who believe many MNCs operate “sweatshop” factories in developing countries, where workers’ rights have been seriously violated, leading to lower wages, poor working and safety standards, long working hours etc. (Moran, 2002; Fung, O’rourke and Sabel, 2001; Rosen, 2002; Esbenshade, 2004; Hartman, Arnold and Wokutch, 2003) and the people who believe MNCs bring higher wages and better working conditions to local workers, at least better than the jobs that the workers can otherwise get in other local factories (Bhagwati, 2004; Powell and Skarbek, 2006; Rama, 2003). Other economists and sociologists retort that the existence of sweatshops is an important and inevitable feature of economic development, and that laws that seek to restrict the production of goods in sweatshops will harm the very people they were intended to help (Kristof, 2000; Henderson, 2001; Norberg, 2003). Arnold and Hartmann (2005) argue while it is true that many sweatshops exists in the production line in developing countries by MNCs, there are also firms that engage in truly good and beneficial activities with regard to their global workforces, where the result is not a “sweatshop” environment but is instead a safe and healthy workplace where labourers are treated with respect.

Activists, academics, and others have studied large numbers of shops and factories whose workers labour for long hours, under fairly appalling conditions, receiving wages that are

often at or below the legal minimum (see, for example, Connor, 2001; O'Rourke, 2000; Boje, 2002). The disputes concerning global labour practices have become the core of contemporary debates regarding globalization. Many critics of globalization (i.e. Stiglitz, 2002 and 2006; Rodrik, 1997; Gray, 1998) are also concerned about the poor working conditions in developing countries. Moreover, in most instances, workers not only have to confront industrial and political environments in which their rights are systematically ignored, but they also lack the structural power necessary to consolidate those rights, largely as a result of the "reserve army of labour" at the factory gates (Lipschutz, 2005). This is not a new problem, but it has been exacerbated by outsourcing. Lipschutz (2005) gives a detailed look at the sweatshops in the global apparel industry and concludes that the situation in developing countries today is similar to that in the West a century ago, when capitalists viewed unionization as an obstacle to efficiency and profit and states worry that labour activism will drive capital away, while workers fear – with good reason – that attempts to organize will get them fired.

Those who defend the existing system argue that, at least, workers in developing countries have jobs, which pay more than the local minimum wage and represents a first step toward upward mobility (Bhagwati, 2004; Rama, 2003). If workers were able to organize and press for higher wages and better working conditions, continues the argument, this would only induce capital to seek more attractive investment conditions in other countries. This points to the key problem for labour in developing countries – competition among countries for foreign investment, weak or non-existent monitoring of working conditions and enforcement of labour law, and the relatively small proportion of people employed in factories make the organizing environment for workers much more

inhospitable (Lipschutz, 2005). Winters (1996: 196) notes that earlier competition between workers in different advanced industrialized countries in the 1960s saw workers gain through productivity-based bargaining, but the more direct and extreme international competition now produces a “race to the bottom” for wages and working conditions. That is, countries are given increased incentives to dismantle current existing regulatory standards, in order to attract foreign investments.

Since the early 1990s, a range of people, including labour rights activists, trade unionists, students, journalists, academics and other concerned citizens have targeted companies in the apparel, sports shoe and toy industry over the low wages, long hours and poor workplace safety in the factories from which they sourced (Frost and Burnett, 2007). In the apparel industry, it is called “anti-sweatshop” movement (DeWinter, 2001) and in the computing industry, from 2004 to 2006, A UK non-governmental organization (NGO) – the Catholic Agency for Overseas Development (CAFOD) released “Clean up your Computer”, a series of policy reports and updates that aimed to shed some light on poor workplace practices in the computer manufacturing industry in developing countries (CAFOD, 2004; 2005; 2006).

The Foxconn case – focusing on working hours

One clear example of worker exploitation in China was a string of 11 employee suicides within the first six months of 2010 in Foxconn Technology Group – a Taiwanese subcontractor which is normally highly secretive and rarely allows site visits of its factories that make products such as smartphones, PCs, digital cameras and LCD televisions under contracts for companies including Apple, Sony, Dell and Nokia (The

Financial Times, 2010; BusinessWeek, 2010). According to a statement released on 4 June 2010 by the organization of Students and Scholars Against Corporate Misbehavior (SACOM), there was clearly something structurally wrong with the working hours basis of the Foxconn factory. The SACOM (2010: n.pag) statement reports:

Yan Li, 27, is the latest victim of Foxconn, the manufacturer of iPads and other high-tech items that has experienced a recent rash of worker suicides. He collapsed and died from exhaustion on 27 May after having worked continuously for 34 hours. His wife said Yan had been on the night shift for a month and in that time had worked overtime every night. Yan, an engineer, had worked for Foxconn since April 2007. The tragedy marks the 11th death at the corporation since January this year.

The *Wall Street Journal* on 7th June, 2010 also mentioned the long working hours and pitiful wages in Foxconn, saying that:

Many Hon Hai employees work overtime, so even assembly-line workers generally end up making more than 900 yuan (£100) a month. But critics have said the system pushes people to work excessively long hours under intense conditions, leaving them physically and emotionally exhausted.

The series of suicide incidents triggered an investigation by the Chinese government, Apple Company and other big Foxconn clients, including Dell Inc (*Financial Times*, 2010). Under the public pressure, the company's immediate measure was to raise the wage of the employees. The *Wall Street Journal* (2010) reports the details on pay raise by Hon Hai Precision Industry Co. – the controlling corporation of Foxcon and said that the average wage raise was 30 per cent to all its employees in China. Elsewhere in the Wall Street Journal article the company says it is working to make its “workplace standards

and remuneration....best-in-class”. What Foxconn considers “best-in-class” is unclear but one should not equate it to “world’s best practice” because of its pitiful wages, as the article reports:

In Shenzhen, the southern Chinese city where more than half of Hon Hai's roughly 800,000 Chinese staff is employed ... As of Oct. 1, the monthly wage for all “first line” workers – those on the assembly lines – as well as their line leaders and supervisors, will be increased to 2,000 Yuan, or about \$293.

In fact, the harsh working conditions had been exposed to the public long before the tragedy actually happened, which had been reviewed explicitly by Frost and Burnett (2007). In 2006, the British newspaper *Mail on Sunday* sent a reporter to Foxconn’s Longhua plant, which they call the “iPod City” as it houses 200,000 workers – “a population bigger than Newcastle’s” (*Daily Mail*, 2006). The reporter claims Longhua’s workers live in dormitories that house 100 people, and that security is high, visitors from the outside world are not permitted, “especially in the five-storey E3 factory which makes the Nanos” (*Daily Mail*, 2006). The media focused on the long working hours. Workers toil for 15-hours a day to make the iconic music player, and they earn £27 per month, which is “about half the wage weavers earned in Liverpool and Manchester in 1805, allowing for inflation ... This is low, even for China” (*Daily Mail*, 2006). Regarding to the labour working hours in Foxconn, the report recorded an interview with Zang Lan, an employee from central China, who said that “We have to work so hard and I am always tired ... it’s like being in the army, they make us stand still for hours ... we have to work overtime if we are told to and can only go back to the dormitories when our boss give us permission ... after working 15 hours until 11:30 pm, we feel so tired” (*Daily Mail*,

2006).

After uncovering the harsh conditions at Foxconn in 2006, Apple had promised to investigate the labour conditions in its iPod factories (*Daily Mail*, 2006). Apple admitted that in many cases the workers were exceeding the company's limits for overtime (BBC, 2006), which according to Apple (2009) Supplier Code of Conduct:

[A] workweek shall be restricted to 60 hours, including overtime, workers shall be allowed at least one day off every seven-days, and overtime shall be voluntary. Under no circumstances will workweeks exceed the maximum permitted under applicable laws and regulations. Suppliers must offer vacation time, leave periods, and holidays consistent with applicable laws and regulations.

After investigation, Apple (2006a) concluded:

We [Apple] find that employees worked longer hours than permitted by our Code of Conduct, which limits normal workweeks to 60 hours and requires at least one day off each week. We reviewed seven months of records from multiple shifts of different production lines and found that the weekly limit was exceeded 35% of the time and employees worked more than six consecutive days 25% of the time ... [The factory then] was ordered to enforce Apple's overtime limits.

Unfortunately the Taiwanese company failed to alleviate the overtime which attributed to the suicides of 11 workers, within only six months in 2010. However, the exploitation and even death of workers in the developing countries, it seems, cannot attract much attention and its measures to increase workers' wages incurred blame in the media remarking that the issue of salaries will become an important economic problem. A *New York Times* article on 6 June 2010 reports Hon Hai had increased its salaries to almost double within

a matter of weeks, which “is the strongest sign yet that labour costs are soaring in China’s biggest manufacturing centres and that consumers in other countries may eventually be forced to pay more for a wide range of goods that are made here” (*New York Times*, 2010a). The point of view expressed seems insensitive, and its argument is based solely from the perspective of price motivated consumers. The corporate social responsibility (CSR) pushed over the last two decades and the “Code of Conduct” implemented by MNCs was supposed to erase such global inequities (Kotler and Lee, 2005; OECD, 2001b) but it is clearly not effective in this case.

The corporate social responsibility, according to Moon (2002: 385), “refers to the voluntary contribution of finance, goods or services to community or governmental causes. It excludes activities directly related to firms’ production and commerce. It also excludes activity required under legislation or government direction.” In an official report published by OECD (2001c: 48), corporate codes of conduct are defined as “commitments voluntarily made by companies, associations, or other entities, which put forth standards and principles for the conduct of business activities in the market-place.” In both definition of CSR and the corporate codes, there are two essential elements – the voluntary nature and the good practices. That is, the companies are *voluntarily* “socially responsible” and “doing good”.

Drawing on the example of Liz Claiborne and Nike, among other garment makers that often incur criticisms, Bhagwati (2004: 171) argues that MNCs are in fiercely competitive environments and do not earn huge profits, because the MNCs have other expenses apart from the labour cost, including operating expenses, tax, capital costs etc.

Thus, one should not focus on the relationship between the wages paid to workers and the price of the product.

However, this argument clearly cannot withstand in the case of Apple and its Taiwanese subcontractor – Hon Hai Precision Industry Co, both of which earned huge profits from the sales of iPods. Net sales for fiscal year 2006 were US\$19.315 billion, and US\$1.989 billion net profit. The iPod accounted for sales worth US\$7.676 billion in financial year 2006, or 39.7 per cent of total sales (Apple, 2006b). Results from Apple's fiscal 2007 first quarter recorded huge increases from 2006, with US\$7 billion revenue and US\$1.0 billion net quarterly profit. iPods accounted for much of the profit, with the company shipping 21,066,000 iPods during the quarter, a 50 per cent increase over the same quarter last year (Apple, 2007).

While Apple and the iPod are well known, Hon Hai Corporation and its Foxconn factory, one of the Apple's external (or third party) subcontractors in China, were virtually unknown to people outside the electronics sector. Foxconn's revenue in 2004 was US\$15.811 billion. This figure jumped by 33 per cent in 2005 to US\$20.981 billion (Frost and Burnett, 2007). And for many MNCs, they are even richer than most countries in the developing world. In 2004, the revenues of U.S. car company General Motors were \$191.4 billion, greater than the GDP of more than 148 countries. In its fiscal year ending 2005, U.S. retailer Wal-Mart's revenues were \$285.2 billion, larger than the combined GDP of sub-Saharan Africa (Stiglitz, 2006). Yet they often violate labour rights in developing countries.

Regarding the crisis-affected countries, this is also a concern. In Thailand, the labour management failure led to the 1993 fire at the Kader Industrial (Thailand) factory, where the poor safety standards contributed to the deaths of at least 188 employees and the injuries of many other (Brown, 2001). One or two instances of corporate misbehaviour might be over-looked, but the problems are clearly systemic. And one of the systemic causes, obviously, is that “corporations are in the business of making money, not providing charity” (Stiglitz, 2006: 189).

6.4 Conclusion

Due to the cheap labour source and the market liberalization in the latter half of 1990s, the efficiency-seeking large multinational companies (MNCs) in industrial countries found it expedient to set up plants in Asian countries. However, numerous examples in Asian manufacturing demonstrated the problem of unjust exploitation of workers and violation of labour rights.

The 1997 financial crisis raises again the problem of labour exploitation in Asia, since the crisis had enormous effects on Asian labour market. The number of unemployed people increased threefold in Korea and fourfold in Thailand. While a large number of the unemployed became discouraged and stopped seeking work, the number of job seekers still increased significantly. In Korea, the number of job seekers registered at the public employment system jumped from 243,467 people in 1997 to more than 2 million in 1998, while only 7.4 per cent of them found work in 1998. In Thailand, the number of job seekers increased by three times in the dry season and by more than five times in the wet season in 1997-98.

For people who can somehow keep their job, their working hours had been cut due to economic recession. More workers hired on a non-regular or non-standard basis as firms tried to reduce their payroll and increase flexibility in their utilization of labour. This had led to the problem of underemployment and lower wages, as in the case of Korea, the irregular workers earned about 60 per cent of the average wages of regular workers (Koo, 2007: 5).

With the economy shrinking, employment in low wage sectors increased, such as agriculture other labour-intensive sectors, as new employment were often created in these sectors and many higher paying jobs were destroyed in the industry and financial sector which was hardly hit by the crisis. Unlike Thailand and Indonesia, who is got a large agriculture sector to absorb the unemployed people, Korea had a particularly difficult time in dealing with the dramatic increase in unemployment in its larger industry base. This has led to the highest suicide rate in Korea among the OECD countries (Bello, 2007).

The problem of increasing unemployment and underemployment and low-wage employment reflected the fact that jobs are either eliminated or its quality had been decreased in the crisis, leading to dramatic increase in poverty. Moreover, these crisis impacts on labour market had different influences on people in different income group, age group, sex group and education group, leading to large social inequality.

Chapter 7 FDI and the crisis III: reconceptualizing FDI

7.1 Introduction

In the last two chapters, the dramatic increase of FDI flows into Asia during the time of the crisis and the large effects of the crisis on local economies and labour were examined.

The IMF (1993: 86) defines foreign direct investment as:

[an] international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy ... The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise.

It is the elements of long-term interests and control that distinguish FDI from other capital flows. It is also this control power of the FDI money that represented the interests of the international capitalists, which raised concerns about the exploitation of local labour and resources. This chapter seeks to demonstrate this exploitation through focusing on the control power of FDI over local labour, commodity and land, which are the essentials for production. In examining these problems, a new way of measuring FDI is presented. Apart from measuring FDI in money terms, the FDI is re-conceptualized, which means to measure the flows in labour-commanded units and commodity and land purchasing units in order to give a numeric reflection and comparison of the potential control power of FDI money.

The rest of the chapter is organized as follows. The second section reviews the empirical

studies and theoretical discussions on the effects of FDI on host countries. The third section offers a discussion of the value of money and its two primary functions – the labour-commanded power and the purchasing power. The fourth section of this chapter explains the concept of re-conceptualizing FDI, in labour-commanded and purchasing power units. Section five explains the methodology. Here I explain how I transform the empirical evidence on FDI in money terms, into a measure of labour-, land- and commodity- commanded. The results are presented in section six. The results show that FDIs flowing to Asia, in terms of quantity of labour commanded and commodity and land controlled was significantly amplified during the crisis. The conclusion will be drawn in section seven, by dealing with the limitations of the data and methodology and suggesting directions for future research.

7.2 Literature review

FDI and economic growth

What is FDI's impact on host country growth? Large amounts of literature use aggregate FDI flows to test whether FDI accelerates economic growth, frequently showing evidence of a positive relationship between FDI and growth (Borensztein, De Gregorio and Lee, 1998; Blonigen and Wang, 2005; Barrell and Pain, 1997).

Positive effects of FDI on economic development focus on the boost of capital formation, greater employment and the technology spillover effects, with the idea that multinational enterprises are supposed to bring best practice in management and advanced technology to developing countries. Romer (1993), for example, argues that important “idea gaps” between rich and poor countries exist. He notes that foreign investment can ease the

transfer of technological and business know-how to poorer countries. De Mello (1997; 1999) gives a comprehensive survey of the nexus between FDI and growth as well as for further evidence on the FDI-growth relationship and concludes that FDI has a positive effect on economic growth in developing countries through technology upgrading and knowledge spillovers and growth in capital accumulation and total factor productivity. Apart from the spillover effects, Hirschmann (1958) and Moran (1998; 2001) argue inward FDI pushes the process of industrial development forward by creating linkages with the rest of the economy. According to this view, FDI may boost the productivity of all firms – not just those receiving foreign capital. Thus, transfers of technology through FDI may have substantial spillover effects for the entire economy.

Using a dataset of Indonesian manufacturing firms, Blalock and Gertler (2005) show that technology transferred from foreign entrants to local suppliers diffuses throughout the host country and generates welfare benefits to both firms and consumers. Blomstrom and Kokko (1998) give a critical review on the role of FDI in technology transfer. They argue that while the spillover effects to the host countries are often more difficult to identify, the positive effects of foreign investment are likely associated with the increase in the level of local capability and competition.

A number of firm-level studies, on the other hand, do not lend support for the view that FDI promotes economic growth. Using both World Bank and IMF datasets, Carkovic and Levine (2005) conducted a statistical analysis and found that FDI inflows did not exert an independent influence on economic growth. Hanson (2001) has found weak evidence that FDI generates positive spillovers for host countries. Gorg and Greenaway (2004) give a

comprehensive review on productivity, wage and export spillovers at the firm level in developing, developed and transitional countries and their econometric evidence suggests mixed results for positive spillovers. Drawing on empirical evidence from China, the Philippines, Singapore and Thailand, Mehmet and Tavakoli (2003) found evidence that FDI has a “race to the bottom” effect on real wages, forcing a competitive downward decline in these countries.

There are a lot of studies to examine the role of FDI in the Asian economic development in the miracle years. Many are surrounding the topic of “to what extent the FDI contributed to the Asian economic achievement”. In the context of Asia, FDI has long been praised for its contribution to the rapid economic development in the 1980s and 1990s. Ranis and Schive (1985) examined the role of FDI in Taiwan’s development from 1952 to 1980 by industrial case study. They found that FDI played an important role in Taiwan’s early economic development and thus confirmed that FDI is an efficient channel of technology transfer from overseas to Taiwan. Similarly, Chan’s (2000) research supports a causal relation from FDI to economic growth.

However, using 1986 and 1991 survey data for Taiwan, Chen, Hsu, and Chen (1999) found that FDI had no, or even had negative, effects on labour productivity when examining the competing channels of technology adoption. In another more comprehensive study on the foreign direct investment and productivity in eight East Asian economies, including the five crisis-affected countries, which were Indonesia, Malaysia, Korea, Singapore, and Thailand, Thiam (2006) shows that only in Singapore and Taiwan is causality from the change in FDI inflows to TFP growth found, and FDI

does not appear to have any impact on the various measures of productivity growth in Korea.

FDI in the Asian crisis

After decades of uninterrupted high growth, a localized currency and financial crisis erupted in Thailand in 1997, and soon spread to other South-East Asian countries, namely, Indonesia, Malaysia, Korea and Hong Kong and the Philippines. The Asian crisis and the global spreading that followed it and the enthusiasm for promoting capital flows to aid economic turmoil in these countries had given new emphasis on the debate of how to reconcile international capital mobility with domestic economic stability (Athukorala, 2003).

Short-term capital volatility has been seen as lying at the heart of the financial crisis (Radelet and Sachs, 1998). The policy debate has focused on reducing the instability of short-term capital flows by controls or by taxation and regulation, and on switching the composition of capital flows to the longer-term end, particularly in the form of FDI. Through examining the FDI flowing to Asian during the crisis, most studies conclude that FDI is a relatively stable source of capital (Athukorala, 2003; Lipsey, 2001; UNCTAD, 1999b: 162; 2000: 165; Radelet and Sachs, 1998).

Athukorala (2003) argues MNE affiliates contributed to the agility of Asian economies in the wake of the financial crisis through their ability to maintain output and export levels with the help of their global trading networks. Blalock and Gertler (2005) argue that foreign investment is less vulnerable than domestic investment to liquidity constraints

during times of financial crisis. Whereas liquidity constraints denied domestic exporters the opportunity to take advantage of the massive Indonesian devaluation, exporters with foreign ownership could access credit through their parent company and use the Indonesian economy as a base for expanded production and exports. Exporters with foreign ownership increased capital investment by 8 per cent, domestic employment by 15 per cent, and value added by 30 per cent more than exporters without. They conclude that FDI can provide a form of liquidity insurance in times of financial crisis and hastens economic recovery.

However, Razin, Sadka and Yuen (2001: 312) argue that although FDI provides a stable source of capital and is the only direct link between the domestic capital market in the host country and the world capital market in crisis, the resilience of FDI flows may come at a social cost to the host country. The foreign investment may exacerbate distortions in the domestic capital market, which originate from the lack of corporate transparency, and gives rise to asymmetric information. Drawing in particular on the case of Malaysia, which did have a high proportion of FDI relative to capital flows, Bird and Rajan (2002) argues that changing the composition of capital inflows to the long term provides no guarantee of financial stability because increasing FDI may itself be associated with increased instability in portfolio flows and policy measures designed to encourage FDI may involve a distortionary cost.

Issues of foreign direct investment in Asia

Even though there is a general belief that the impact of FDI in Asian was generally positive – bringing in necessary capital, foreign exchange, technology, management

skills, and foreign market access – prevalent controversies still exist regarding to the exploitation of local labour and resources. This is for several reasons.

First, as discussed in chapter 2, promoting FDI has been an integrated part of the contemporary economic development in East and Southeast Asia. The industrialization in the region's states depended significantly on the investments of multinational enterprises (MNEs) in their economies in the pursuit of an outward-oriented economic development strategy based on export- and FDI-led growth (UNCTAD, 1994). Following this strategy, East and Southeast Asian regions absorbed more than half of the total FDI flowing to developing countries (see chapter 5, figure 5.1).

Secondly, FDIs flowing to Asia are so called “vertical FDI” and “resources- or efficiency-seeking FDI” as firms relocate parts of the vertical chain of production to a low-cost location (Kinoshita and Campos, 2006: 263; Dunning and Lundan, 1993; Dunning, 2004: 285). In the international economic and classical trade theory based on the Ricardian and Heckscher-Ohlin models, the location selection of FDI by the MNEs is determined on the country's comparative advantage of the factor of productions, including land, labour, natural resource, raw materials, capital goods etc (Luo, 1999: 108; Ricardo, 1817; Heckscher, 1919; Ohlin, 1933).

The majority of relevant studies have attributed the FDI flows to the East and Southeast Asian regions, especially the ASEAN countries, to a combination of factors including: political, economic and social stability, rapidly growing domestic markets, development-oriented governments with favourable exchange rates and sound macroeconomic and

FDI-promotion liberalization policies, and most importantly, the favourable factor endowments, particularly natural resources and labour supply in Indonesia, Malaysia, Thailand and the Philippines and human resource and infrastructure in Singapore, which gave the favourable labour and land costs (see Riedel, 1991; Chia, 1993b; Phongpaichit and Baker, 1998; Bende-Nabende, Ford and Slater, 2001). On the other hand, in the major source countries of the FDI, mainly Western industrial countries, the shift of company focus from production to branding led companies to “source” their production to countries where wages were low (Klein, 2000). All of these led to the massive relocation of labour- and land- intensive industry from Japan and other Western countries to Asia.

Thirdly, in the crisis aftermath, the level of inward FDI into the region as a whole remained stable (UNCTAD, 1999b: 162; 2000a: 165). Even though it has fallen dramatically in some countries including Indonesia and the Philippines, the crisis did not question that the Southeast Asian countries should fundamentally divert away from their outward-oriented, FDI development strategy (Dent, 2004: 33). In two of the worst-affected countries – Korea and Thailand – inward FDI continued to grow strongly during the crisis (figure 5.5). On the other hand, the crisis was not only a “financial” crisis, but also an actual economic crisis leading to high inflation, suppressed commodity prices and falling land prices on the economic side, and a dramatic increase in unemployment, poverty and falling wages on the labour side (see chapter 5 and 6). Therefore, concerns of FDI in this research have risen, particularly in Asia, for the exploitation of the local factor of production – labour, land and resources.

7.3 The value of money

Before examining the power of FDI money on the East Asian economies, it is important to examine the value of money, so as to clarify the question of what the power of money means. The theoretical discussion of the value of money starts from distinguishing the “exchange value” (the economic value) from the “use value”. Ludwig Von Mises (1953: 97 and 102) argues:

The central element in the economic problem of money is the objective exchange-value of money, popularly called its purchasing power. This is the necessary starting-point of all discussion; for it is only in connexion with its objective exchange-value that those peculiar properties of money that have differentiated it from commodities are conspicuous ... while the utility of other goods depends on certain external facts (the objective use-value of the commodity) and certain internal facts (the hierarchy of human needs), the subjective value of money is conditioned by its objective exchange-value ... In the value theory of Adam Smith and David Ricardo, and in that of their successors, value-in-exchange plays the leading part. These theories attempt to explain all the phenomena of value by starting from value-in-exchange, which they interpret as labour value or cost-of-production value [and that] Under the present economic system ... It is not use-value, but exchange-value, that appears to govern the modern economic order.

Ludwig Von Mises (1953: 100) further explains the “objective exchange-value” as:

The objective exchange-value of goods is their objective significance in exchange, or, in other words, their capacity in given circumstances to procure a specific quantity of other goods as an equivalent in exchange ... By the objective exchange-value of money we are accordingly to understand the possibility of obtaining a certain quantity of other economic goods in exchange for a given quantity of money.

Therefore, the power of money derives from its “objective exchange-value” which enables it to exchange for any commodity.

Moreover, both Mises (1953: 102) and Marx (1973: 146) note that under the present economic system, producers do not work to satisfy their own needs but with a view to supplying the market. Therefore, production is shaped in such a way that every producer becomes more and more dependent on the exchange value of his commodity, which is in relation to money. Marx (1973: 146) further points out that “the need for transformation of the product into a pure exchange value progresses in step with the division of labour”, and with more products and services transformed into money relations, creating the “transcendental power of money” (Marx, 1973: 146).

To the power of money and its implications to people, Marx (1988[1959]) believes money can do two things. First, it extends the power of individuals:

The extent of the power of money is the extent of my power. Money’s properties are my properties and essential powers – the properties and powers of its possessor. Thus, what I am and am capable of is by no means determined by my individuality. I am ugly, but I can buy for myself the most beautiful of women. Therefore I am not ugly, for the effect of ugliness-its deterrent power is nullified by money (Marx (1988[1959]: 137).

Secondly, money can bring individuals’ potential needs and imagination into real existence:

[M]oney ... converts my wishes from something in the realm of imagination, translates them from their meditated, imagined or wiled existence into their

sensuous, actual existence—from imagination to life, from imagined being into real being. In effecting this mediation, money is the truly creative power (Marx (1988[1959]: 139).

Labour commanded

The notion of labour commanded was first introduced by Adam Smith in *The Wealth of Nations*, first published in 1776, where he (1970[1776]: 133) argues:

The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it and who wants to dispose of it, or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people ... Labour was the first price, the original purchase money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value, to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command ... Labour, therefore, is the real measure of the exchangeable value of all commodities.

Smith's "labour-embodied" theory was developed by Karl Marx (1887) who argued "a use-value, or useful article ... has value only because human labour in the abstract has been embodied or materialised in it" and the magnitude of this value can be measured "by the quantity of the value-creating substance, the labour, contained in the article. The quantity of labour, however, is measured by its duration, and labour-time in its turn finds its standard in weeks, days, and hours." However, Marx (1887) disagreed with Smith's view of quantity of actual (concrete) labour embodied in the article but rather the abstract labour, which "forms the substance of value, is homogeneous human labour, expenditure

of one uniform labour-power. The total labour-power of society, which is embodied in the sum total of the values of all commodities produced by that society, counts here as one homogeneous mass of human labour-power, composed though it be of innumerable individual units.” The classical economists, such as Smith, Ricardo, John Stuart Mill, and Marx all advocated some version of a labour theory of value. Although each writer differed in minor details and points of emphasis, labour was viewed as the only fundamental “cost” involved in the production of a good and a good’s natural price is proportional to the total quantity of labour required to produce it.

When FDI money flows from major industrial countries to developing countries, the money represents the social power to command or exploit the local labour (De Angelis and Harvie, 2008). Jessop (1999: 24) points out that capital accumulation depends essentially on the market-mediated exploitation of wage-labour. The worker is both an abstract unit of labour power and a concrete individual with specific skills, knowledge and creativity and wages act as both a cost of production and a source of demand. The internationalization of production makes this capital accumulation process crossing national borders and now the value added generated by the MNCs is based on exploitation of local wage-labour.

As it is noted in the World Investment Report, that “The employment impact of FDI in host economies varied by region, but for a given amount of inward FDI more jobs were created in developing and transition economies than in developed countries” (UNCTAD, 2007: xvi). It is correct to argue that, given the miserable wages of the developing countries in relation to those paid in the developed countries, more jobs can be created in

the developing countries for a certain amount of FDI. However, this also implies that the FDI money may not necessarily be used to increase the local wage level or change the living conditions of the local labourers. It only means that more people would have a chance to work for much longer hours for pitiful wages. For example, in the United States, \$20 will employ one worker for 1 hour; that is, it will command just a single hour of labour time. When the \$20 FDI goes to China or Thailand, it can put four people to work each for 10 hours, while in India, that \$20 is sufficient to put ten people to work, each for 10 hours. The issue of remuneration and overtime in MNCs that links the themes of the Foxconn's working conditions and workers' death. The exploitation of labour is reflected in the extensive labour controls through forced overtime and poor safety standards (see chapter 6 for more details). Therefore, it is important to examine the labour working hours that can be potentially put into motion by the FDI money, as a means to reflect the labour commanded power of the FDI inflows.

Purchasing power

FDI money can have objectives other than to control labour – as acquiring local assets, especially in the form of mergers and acquisitions (see chapter 5 for more details). The relevant theory regarding to the purchase power of money in an open economy involves the purchase power parity (PPP) theory and the calculation of real exchange rate in line with the PPP. The theory is usually presented in two versions: relative and absolute PPP. The absolute PPP theory holds that “the general level of prices, when converted to a common currency, will be the same in every country” (Copeland, 2005: 60) and the exchange rate is equal to the ratio of domestic to foreign price levels. This is based on the

“law of one price”, which holds that identical goods must sell for the same price to avoid arbitrage, when that price is expressed in a common currency (Taylor and Taylor, 2004: 137). If considering PPP in two countries, the nominal exchange rate between the two currencies should be equal to the ratio of aggregate price levels between the two countries, so that a unit of currency of one country will have the same purchasing power in a foreign country (Taylor and Taylor, 2004: 135). The most frequently cited example of this is the *Economist’s* Big Mac Index that compares the price of a Big Mac in different countries in terms of US dollars using the current exchange rate to test if the PPP holds and to determine whether the currency is overvalued or undervalued against the US dollar (Allsopp, Rammal and Zurbrugg, 2005: 253; Taylor and Taylor, 2004: 136).

The relative PPP theory holds that the percentage change in the exchange rate over a given period just offsets the differences in inflation rates in the economies concerned over the same period (Taylor and Taylor, 2004: 137; Solnik and McLeavey, 2004: 47). In another explanation, Copeland (2005: 63) states under the relative PPP hypothesis, one country’s inflation rate can only be higher than another’s to the extent that its exchange rate depreciates.

These theories have important implications to the analysis of purchase power of FDI in Asian crisis. As suggested by the relative PPP hypothesis, the depreciation in Asian countries would push up the local inflation rate. Thus, US dollars flowing to Asia, in spite of exchanging for more local currency, do not necessarily have more purchase power as it can be offset by the rising local inflation. For example, before the crisis say an investor has one USD flowing to Thailand, which exchanges for 40 baht (i.e. nominal exchange

rate 1 USD = 40 baht) and can buy one banana on the local market. After the crisis, the nominal exchange rate increased to 1 USD equals 80 baht, so one USD can now exchange for 80 baht. When the investor changes 1 USD to 80 baht for two bananas, the local inflation pushes the price of bananas to 60 baht. So the buying power of the investor's 1 USD does not double as in nominal exchange rate terms, but actually rose by 1.5 times in the real terms. Therefore, to calculate the buying power of the USD investment, the local price level relative to the price level in the base country (in this case, the US) must be taken into consideration. As the market exchange rates do not reflect actual purchasing power of currencies, it is therefore necessary to use PPP which according to the definition by United Nations Statistics Division (UNSD), gives the number of currency units of another country that is required to purchase the amount of goods and services equivalent to what can be bought with one unit of currency in the base country.

7.4 Re-conceptualizing FDI in Asian crisis

The Asian financial crisis raises a critical question about the social and economic implications of these FDI flows to the Asian developing countries. As money represents a social power to command labour and purchasing power to buy things, when FDI money flows from developed countries to developing countries at the time of crisis, the money has many social implications.

If the FDI is defined in terms of currency units, such as U.S. dollars, as it normally is, the labour command power and the purchasing power of the money would be concealed. FDI measured in the currency terms cannot reveal any of these social implications. Deviating

from the traditional measure of FDI in currency terms, the notion of re-conceptualizing FDI in this article is represented by measuring FDI in different ways. Given the lack of reflections on the social implications of FDI in money terms, this chapter seeks alternative ways to measure FDI in order to reveal these implications.

These include, first, considering the labour commanded power by FDI money through the calculation of the “labour-commanded FDI”, following De Angelis and Harvie (2008: 434) who defined it as “the potential living labour that can be put in motion by a certain money value of capital”. It is given by dividing FDI inflow figures in money term by hourly wage rates in manufacturing. By doing so, the power of FDI money to control local labourers’ time, to put people to work, to command labour is stressed, whether or not this power is actually exercised. Secondly, examining the power of FDI money also focuses on its purchasing power, through the calculation of “commodity FDI” and ‘land FDI’. More specifically, it looks at how much quantity of commodities or land units can be purchased by a given amount of FDI capital, as the FDI inflows also have the means to exert its purchasing power on the local market, rather than control labour.

In the context of financial crisis, these two ways of measuring FDI, which would offer a different depiction of FDI in its money term, are important for two reasons. First, by looking at how many labour hours and how much commodities or land the FDI money can command and control, the social power of FDI capital will be reflected. Especially in the crisis time, it is more than necessary to not only look at FDI levels in currency terms, but also examine what the money really means to the recipient country, in terms of its social implications. By converting statistics on FDI from money terms into terms of

purchasing power units, or labour-commanded working hours, we can gain insights into the increase in control over national wealth, understand how much commodities/land the foreign investment can buy or control on the local market, or the hours of labour time that can potentially be set in motion by a given quantum of FDI.

Secondly, the “labour-commanded FDI” and “commodity FDI” enables a *comparison* between countries at different times. Say, the United States invests 500 million dollars to Thailand during the crisis time, we do not know and cannot compare what the differences were to spend 500 million dollars in US and in Thailand or what the differences were to have it before or after the crisis. If the 500 million dollars is divided by hourly labour cost, which is the wage for one person to work for one hour in these two countries, or by commodity/land prices, then we can use this “labour-commanded FDI” or “commodity/land FDI” to compare how many labour working hours or how much commodities/land the FDI money can control in the US and how much in Thailand. By comparing this before and after the crisis time, we can gain insight into the effects of financial crisis on the social power of FDI money.

All in all, the purpose of this chapter is to re-conceptualize FDI from its money terms to the “labour-commanded FDI” and “commodity/land FDI” in order to examine the social power of the FDI money during the Asian crisis period and how it changed before and after the crisis.

7.5 Methodology

In this chapter, three different ways to “re-conceptualize” FDI will be presented. That is

the “labour-commanded FDI”, “commodity FDI” and the “land FDI”. Following De Angelis and Harvie (2008: 434), the “labour-commanded FDI” in this chapter will be defined as “the potential living labour that can be put in motion by a certain money value of capital.” It is given by dividing FDI inflow figures in money terms by hourly wage rates in manufacturing. Similarly, the “commodity FDI” is defined as the potential quantity of commodities that can be obtained by a certain money value of FDI capital. It is given by dividing FDI inflow figures in money terms by local commodity prices. The “land FDI” is defined as the potential quantity of land that can be obtained by a certain money value of FDI capital. It is given by dividing FDI inflows in local currency by land prices in the crisis-hit countries. Thus the FDI in money terms will be represented in alternative ways, in order to examine the amplified purchasing power and labour-controlling power of the FDI money during the time of the crisis.

The original data source for FDI inflows of the crisis-hit countries are based on US dollars and data for the local labour cost, and indices of commodity prices and land prices are all based on local currency. When calculating “labour-commanded FDI”, “commodity FDI” and the “land FDI”, all FDI inflows in US dollar terms will be converted into local currencies in order to incorporate the currency devaluation effects on FDI, so that the whole calculation process is based on local currency.

In order to incorporate the price level, as suggested by the PPP theory, the US dollar investment will be turned into local currency under the real exchange rate, which is the nominal exchange rate adjusted for differences in inflation rates (Siddaiah, 2009: 97). The FDI inflow in this research is at aggregate level measured in US dollars, incorporating all

the FDIs worldwide. By assuming all the FDIs are from the US, it can be seen as a study to examine the purchasing power of investors holding US dollars from any places. Therefore, bilateral real exchange rates of US dollars against each local currency (i.e. Korea won and Thailand baht) is used rather than the real effective exchange rate which is weighted average of the multilateral real exchange rate against a basket of currencies (Copeland, 2005: 7).

When calculating the real exchange rate, the wholesale price index (WPI) is adopted for the “commodity FDI” and the consumer price index is adopted for “labour-commanded FDI” and the “land FDI”. As suggested by Taylor and Taylor (2004: 137), producer price indices tend to contain the prices of more manufactured tradable goods, rather than consumer prices indices which tend to reflect the prices of relatively more non-tradable goods, including many services. The formulas to calculate the real exchange rate are presented in equation 1 and 2 as follows:

Equation 1:

$$RER_{it} = \frac{NER_{it}LCWPI_{it}}{USWPI_t}$$

where RER_{it} is the real exchange rate based on WPI for country i in year t , NER_{it} is the nominal exchange rate of local currencies per US dollar, $LCWPI_{it}$ is local WPI and $USWPI_t$ is WPI in the United States.

Equation 2:

$$RER'_{it} = \frac{NER_{it}LCCPI_{it}}{USCPI_t}$$

where RER'_{it} is the real exchange rate based on CPI for country i in year t , NER_{it} is the nominal exchange rate of local currencies per US dollar, $LCCPI_{it}$ is local CPI and $USCPI_t$ is CPI in the United States.

Accordingly, the formula for “commodity FDI” is as in the following equation:

Equation 3:

$$CFDI_{it} = \frac{USDFDI_{it}RER_{it}}{CP_{it}}$$

where $USDFDI_{it}$ is annual FDI inflow (in US dollars) into country i in year t , RER_{it} is as represented in Equation 1, and CP_{it} stands for the commodity prices and $CFDI_{it}$ represents commodity FDI.

Lastly, the formula for “labour-commanded FDI” and the “land FDI” is as in the equation below:

Equation 4:

$$XFDI_{it} = \frac{USDFDI_{it}RER'_{it}}{X_{it}}$$

where $USDFDI_{it}$ is annual FDI inflow (in US dollars) into country i in year t , RER'_{it} is as represented in Equation 2, and X_{it} stands for the two variables (i.e. hourly wage, and land

price) that I use to calculate these two types of FDI which is represented as $XFDI_{it}$.

Data

This chapter mainly focuses on the two hardest-hit crisis countries – Thailand and South Korea. Data used in this research is obtained from various international organizations including the United Nations Conference on Trade and Development (UNCTAD), the International Labour Organization (ILO), the World Bank, as well as government agencies including the Bank of Korea and Thailand Agency for Real Estate Affairs.

More specifically, data for FDI inflows in US dollars terms to the two crisis-hit countries are taken from UNCTAD FDI online database. The nominal exchange rates against US dollars, WPI and CPI for the US and the crisis-hit countries are taken from the World Bank World Development Indicators (WDI). The commodity prices for Korea are obtained from the Bank of Korea Economic Statistics System online (ECOS), which are the commodity price indices in basic groups of producer price index (PPI). The land prices for Korea are converted from the floating rate of land prices in ECOS statistics and the land prices for Thailand are converted from land price index from the Thailand Agency for Real Estate Affairs. The labour cost data for Korea and Thailand are converted from data on ILO LABOURSTA statistics. For more details of the methodology used to estimate the land prices and hourly labour costs in both Korea and Thailand, see appendix.

Due to the data availability, the “labour-commanded FDI” and “land FDI” will be calculated for both Thailand and Korea while the “commodity FDI” will be calculated for

the Republic of Korea only. The hourly labour cost and land price data is available, the “labour-commanded FDI” thus gives the actual number of potential working hours and land areas that FDI can control. Whereas the data for commodity price is in index, the “commodity FDI” will be calculated on an index basis.

7.6 Results and interpretation

Labour-commanded FDI

The “labour-commanded” FDI reflects the amount of FDI money equivalent to the local potential labour (life) time that can be put to work. That is, when the amount of FDI money flowed into Korea and Thailand is all advanced to employ people, rather than invested in fixed assets, or used to buy shares or increase ownership in an existing firm, the number of hours the FDI money can control recorded a huge increase during the crisis time.

Figure 7.1 and figure 7.2 shows the amount of potential labour working hours that the inflows of FDI money could control in South Korea and Thailand. Over a decade, the working hours that FDI inflows could control for one local labourer never exceeded 300 million hours. However, the crisis lifted that figure up to 722 million hours in 1998 and further to 1217 million hours in 1999, before dropping steadily to 300 million hours in 2002.

In the case of Thailand, the FDI could control people to work for longer hours than they did in Korea, reflecting the lower wage and other labour costs in Thailand than that in Korea. During 1992-97, the FDI controlling working hours were around 1000 million

Figure 7.1 Labour-commanded FDI inflows in Korea, working hours in millions

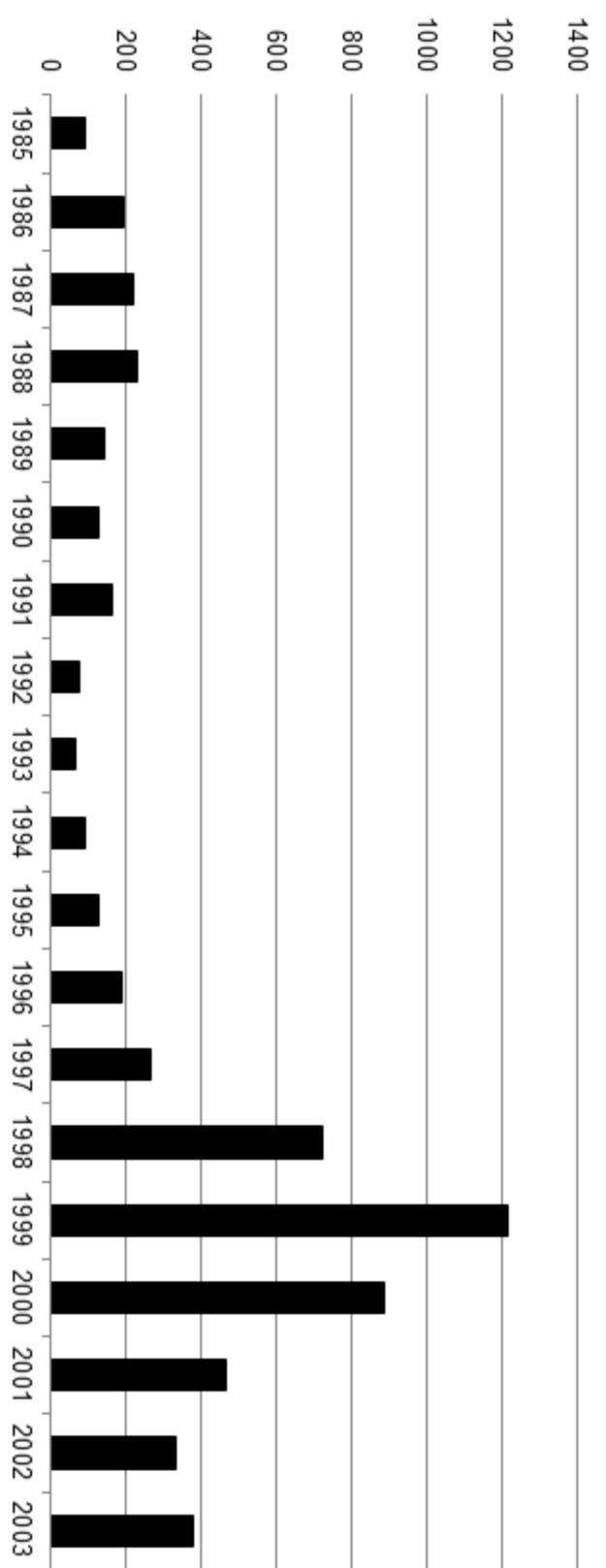


Figure 7.2 Labour-commanded FDI inflows in Thailand, working hours in millions

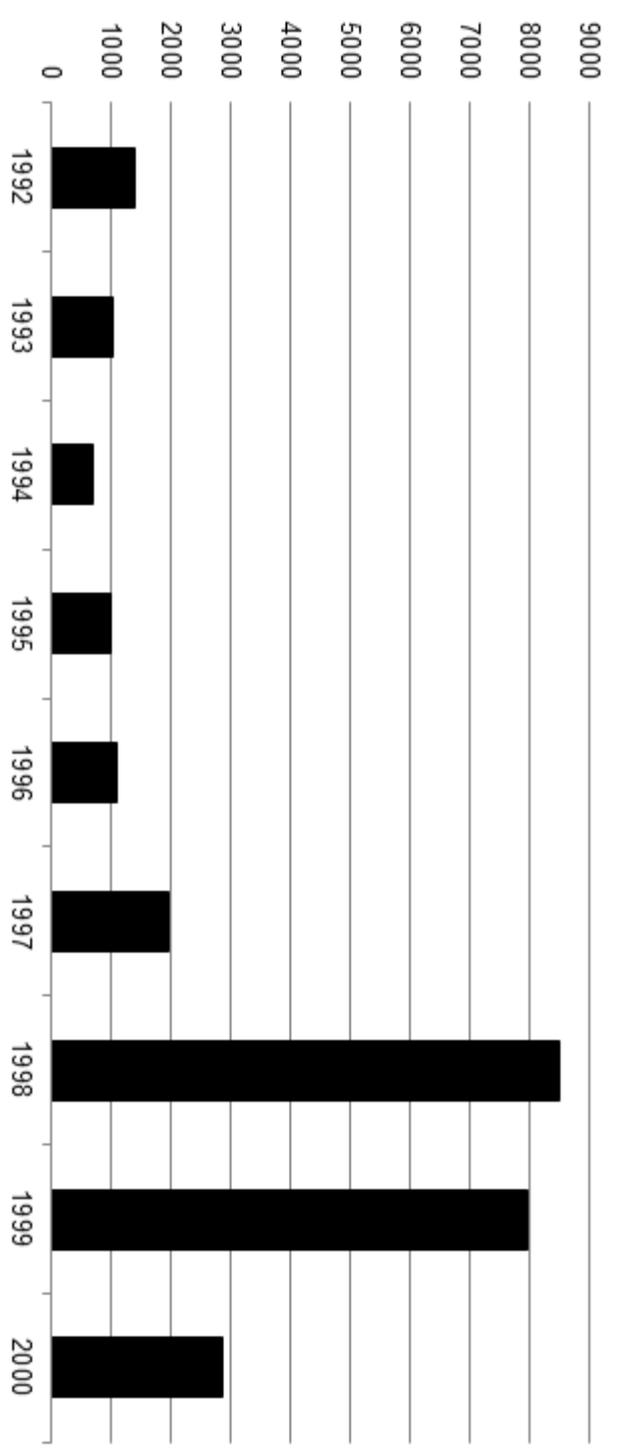
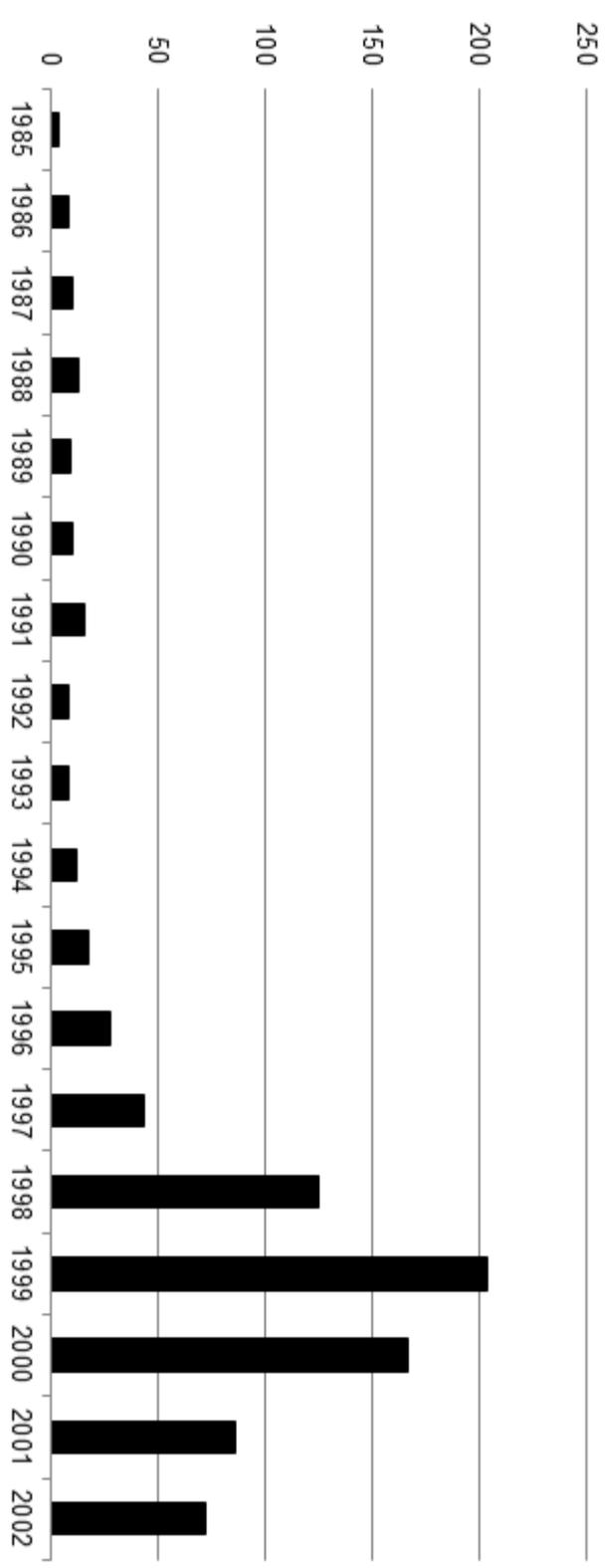


Figure 7.3 Commodity FDI in Korea, 2005=100



hours for one worker, three times higher than in Korea. When the crisis initially occurred in 1997, the labour-commanded hours in Thailand doubled to 2000 million hours. Then it increased by more than four times to 8500 million hours in 1998, before dropping slightly to 8000 million hours in 1999.

In both cases, the figures clearly show the effects of the increasing labour-commanded power of the FDI money, at the time of the financial crisis. The dramatic increase in labour-commanded power can be induced by either a dramatic increase in FDI inflows or a large drop in labour costs or some of both. In Thailand, it was due to a large drop in hourly labour cost in the crisis time, from 60.5 baht per hour in 1997 to 29.4 baht per hour in 1999. Whereas in Korea, it was contributed by the combination of a large increase in FDI inflows and a stable labour cost (for labour costs, see figure 6.2 in chapter 6).

With the increasing FDI inflows, the depreciating local currency and the falling labour cost (including wages and other labour benefits), the FDI, measured in labour-commanded hours, experienced a dramatic increase in Korea and Thailand. The crisis lowered the overall labour cost in crisis-affected countries and led to tremendous controlling power associated with the FDI money. Foreign investors armed with strong US dollars could gain increasing control over the local labour in commanding working hours.

The labour commanded by foreign investment is not new in Asia. Controversy of labour exploitation occurred in the period of Asian industrialization, though this problem could be much worse during the crisis. Even though the view that the volatility of foreign

capital was more crisis-culpable than domestic economic factors has strengthened economic nationalist and “anti-globalization” resistance in some Southeast Asian countries towards all forms of foreign investment including FDI, most Southeast Asian states could not escape the fact that they are structurally integrated into the global production chains, because of the penetration of FDI and the foreign MNEs interests in many key sectors (Dent, 2004: 33).

The labour exploitation in Asia is realized in the process of “outsourcing” by the MNEs. When the MNE’s priorities are shifted from production to branding, the actual manufacturing process is devalued, leading to the people doing the work of process being traded like “detritus” – the stuff left behind (Klein, 2000: 197). On one hand, the MNEs are “bargain hunter in search of the best deal in the global mall” and do not care how the production prices fall so low. On the other hand, a large number of Export Processing Zones (EPZs) in Asia are emerging as leading producers of products ranging from garments, electronics to cars (Klein, 2000: 202). In these EPZs, the workday is long – fourteen hours in Sri Lanka, twelve hours in Indonesia, sixteen in Southern China, and twelve in the Philippines (Klein, 2000: 205).

The huge difference between the cost of production and the price of the products is noted by Braithwaite and Drahos (2000) who argue that high-priced fashion is produced in relatively small batches while the quantity of overall apparel production is numerous. Even though the cost of production does not vary that much between high- and low-end clothing, brand and relative scarcity allow a significant mark-up on clothing by apparel companies and retailers. The authenticity of the brand is of particular importance in this

respect, protected under internationally recognized trademark regulations meant to prevent counterfeiting and maintain monopoly. This has led to the numerous gains for international capitalists and the danger of exploiting workers in developing countries. As noted by UNCTAD (1997b: v):

Capital has gained in comparison with labour, and profit shares have risen everywhere. In four developing countries out of five, the share of wages in manufacturing value added today is considerably below what it was in the 1970s and early 1980s. In the North there has been a remarkable upward convergence of profits among the major industrial countries. The rate of return on capital in the business sector of the G7 countries taken together rose from 12.5 per cent in the early 1980s to over 16 per cent in mid-1990s. This is again the counterpart to declining wage shares.

Commodity FDI

The commodity-FDI is constructed to reveal the purchasing power of the FDI money completely, by assuming all FDI flowing into Asia is as a means to buy things, rather than to control labour. The commodity price adopted in this research is in indices, consisting of four product categories including agriculture forest marine products, mining products, industrial products and utilities (water, gas, electricity).

This is illustrated for Korea in figure 7.3, which shows that the quantity of commodities the FDI can buy is largely increased after the crisis. The Korean commodity-FDI increased by more than four times from 1997 to 1999, before dropping quickly in 2002, when the level of commodity-FDI was still higher than the pre-crisis level.

The increase in commodity-FDI can be attributed to either the increase in FDI inflows or

the drop in commodity prices. In Korea, it was because the large FDI inflows which are further amplified by the devaluation of Korea won. The increase in commodity-FDI was partly offset by the increasing commodity prices due to the local inflation. However, the dramatic FDI inflow could still gain extensive control over the local commodities. Differing from the labour-commanded FDI, the increase in commodity FDI was not due to the drop of commodity prices, but due to the amplified effects on FDI money through dramatic local currency depreciation.

Land FDI

The land FDI (figure 7.4) shows a similar trend as in the labour-command FDI and the commodity FDI. It gives the amount of FDI money equivalent to the quantity of land area that can be purchased, when all the FDI money is advanced to buy land. In the decade of 1985-95, the quantity of land that could be purchased by FDI never exceeded 300 million square meters in Thailand and 20 millions in Korea, The higher price of Korean land is reflected by the less land control of FDI money compared to that of Thailand (when the higher land price was not totally offset by the increase in FDI inflows). The crisis had an enormous effect on the land controlling power of the FDI money. FDI flowing to Korea could buy 140 million square meters of land in 1999, and that to Thailand could buy almost 800 million square meters of local land in 1998. When the crisis was over, the land FDI declined to 330 million square meters for Thailand in 2002 and the corresponding figure for Korea was 47 million, which were still significantly higher than those in the pre-crisis period.

The increase in land FDI could be attributed to either by the increase in FDI inflows or

Figure 7.4 Land FDI, million square meters

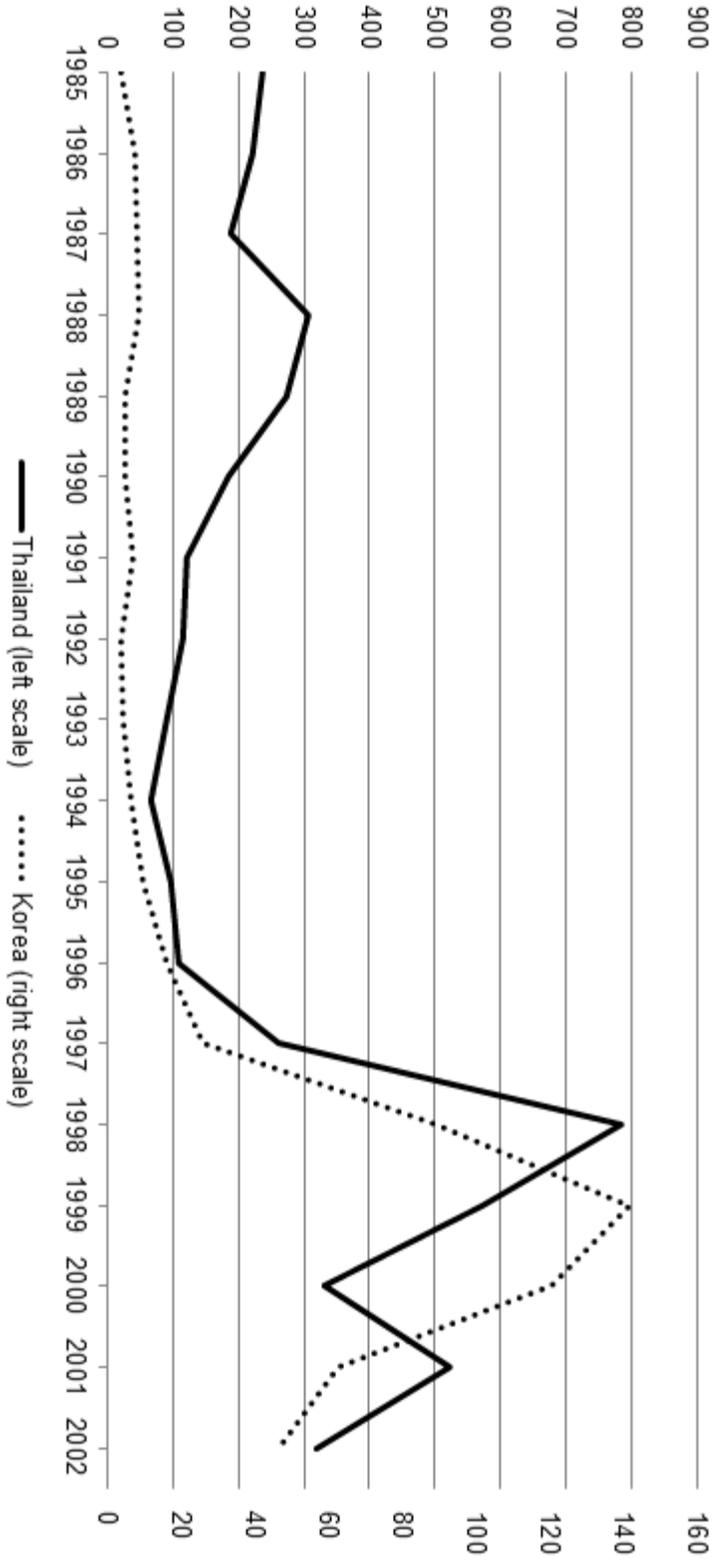
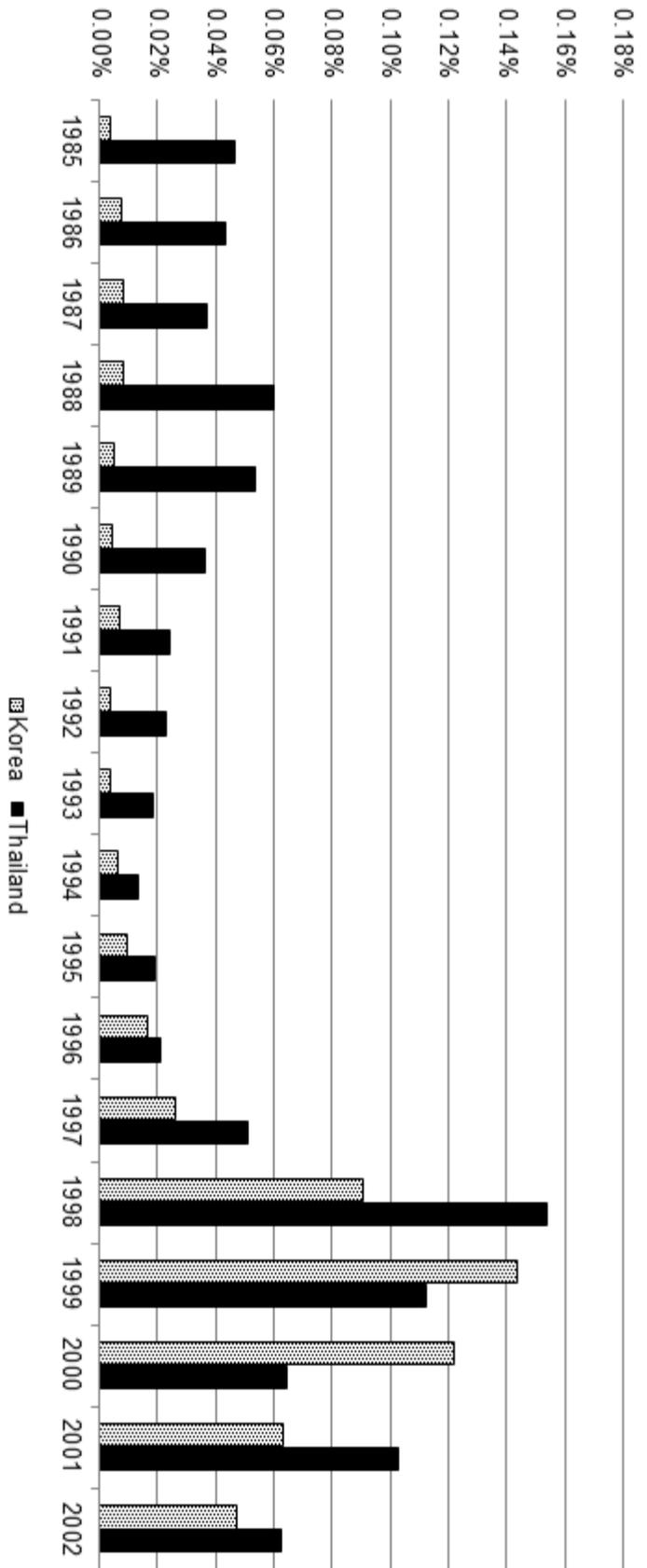


Figure 7.5 Land FDI as a % of total land area



Source: Land FDI, author's calculation; total land area, World Bank World Development Indicators

the drop in land prices. In both cases, it was the combination of the two. Land prices in Korea and Thailand dropped by 13.6 per cent and 10.2 per cent respectively in 1997-98, while the FDI inflow rose by more than three times for both countries. Therefore, the FDI, measured in land purchasing units, experienced a dramatic increase in Korea and Thailand. The crisis lowered the land price in crisis-affected countries and led to great land purchasing power associated with the FDI money.

The land purchasing power of the FDI could also be reflected by the proportion of land controlled by FDI to a country's total land area (figure 7.5). The ratio of land FDI as a percentage of total land, mirrors the trend of land FDI in figure 7.4. With the increasing land purchasing power of the FDI money, the land that can be purchased by FDI money occupied an increasing proportion of the total land area in both Korea and Thailand. The ratio of land FDI to total land in Thailand reached a peak in 1998, when 0.16% of the country could be taken up by the FDI money. In Korea, this figure peaked in 1999, when 0.14% of the country's land could be purchased by the FDI money. The average land price adopted in this research is based on the price of industrial area for Korea and that of the city area for Thailand. Given the numerous farm areas in Thailand and underdeveloped areas in Korea, the average land price in this research is clearly overestimated for both countries. Therefore, the land FDI could take up a larger proportion of the total land area, as the average land price could be much cheaper than that which has been adopted in this research.

Why is the land crucially important to people in developing countries? Because in the Afro-Asian countries a large number of people still live in a "land-based livelihood

system” (Ray, 2008: 21), and “In most of Africa, communal land relations still survive. For colonial domination failed to destroy (to a degree unmatched in other parts of the world) people’s relation to the land ... The village to this day forms the reproductive basis of many African countries, particularly for the proletariat, who rarely, once urbanized, can afford the nuclear family ‘life-style’ that is typical among the middle class” (Federici, 1990). The access to land and water is often crucial to the rural poor, as it provides a means of livelihood of food security (Meinzen-Dick, Kimeri-Mbote and Markelova, 2009: 227).

For decades now, Marxists, political economists and other scholars have told the hidden stories of commodities, untangling the links between commoditization and the enclosures which involves appropriating land, resources and people both to turn them into commodities and to create a labour force to work make capitalist accumulation possible. The history of the commons and the enclosure continues to resonate deeply with contemporary social movements, which is described as “New Enclosures” (Midnight Notes Collective, 1990: 1). Especially in the Global South, millions are being uprooted from their land, jobs and homes by the World Bank and the IMF Structural Adjustment Programs that are being implemented throughout Asia, Africa and Latin America. The commercialization of the commons (the land, air, water, natural resources) and neoliberal privatization and liberalization destroy village communities, and force the rural labor to get involved in the global capitalist product chain. In Nigeria, people were being thrown off communally-owned land by troops to make way for plantations owned and managed by the World Bank, which is advised as the solution to its “debt crisis” by the IMF Structural Adjustment Program (Midnight Notes Collective, 1990: 1). In Mexico, the

Zapatista Army of National Liberation's (EZLN) fights against the North American Free Trade Agreement (NAFTA) for commoditization of the communal land, as the land is "not just a means of survival, but also the place of memory, of culture, of history ... they (the indigenous people) don't have credit cards, they do not consider land as merchandise", claims the Subcomandante Marcos – the spokesperson of the EZLN (Vodovnik, 2004: 474; 455). Campbell (1996) claims that "for indigenous Indians of Chiapas, Mexico's adoption of NAFTA meant the possibility of losing the only thing of value in that extremely impoverished area."

In Asia, dispossession, appropriation, exploitation and enclosure has long embedded in the commodification processes which was initialized in the sixteenth century with the forceful "opening up" of the region by European colonial powers and the "disciplining" of populations for the sake of commodity production and sale (Stoler, 1985; Tarling, 2001). From the beginning, European imperialism had to deal with resistance from local populations, which was countered with physical violence. The violence of dispossession and exploitation lives on, structured into the very landscapes and social fabrics of many Southeast Asian places. The Europeans competed for control of access to people, places, and resources for trade. By the early nineteenth century, the Dutch, the British and the French dominated the area (Hall, 1981). The division of Southeast Asia into distinct colonial realms was directly related to the production of nature and labours as commodities and to the competition for control over them.

Moreover, just as laissez-faire capitalism and liberal philosophies were taking hold in Europe, the 1870s began the era when European colonials built their strategies of

governance and extractions were replaced by arrangements more in line with liberal principles of “free markets”, including production of a free labour force that worked for wages. New forms of control of the production and flow of commodities were put in place. These economic practices depended on enclosures to enable primitive accumulation of various sorts. Land laws were written and imposed and notions of “free” and “unencumbered” lands were invented and embedded into the political-economic logics of these colonies. State or Crown lands were made available to agricultural enterprise as a major form of colonial accumulation (Nevins and Peluso, 2008: 6).

The notion of “political forests” became a major mechanism by which colonial and later contemporary government would enclose vast tracts of land and resources, in the process dispossessing forest farmers and other forest-dependent peoples. It was through these enclosed forests that primitive accumulation by state agencies, corporate interests, and powerful individuals in strategic positions became possible in both the colonial and later periods (Peluso and Vandergeest, 2001; Galudra and Sirait, 2006).

In the Asian financial crisis, the dramatic increase of FDI with large potential controlling power reflects a new wave of the “New Enclosures”, which is a process of primitive accumulation for the global expansion of capitalist relations onto new frontiers and into new realms. There are two parts involved in the process of the enclosures. The first part is to undermine people’s ability to provide for themselves. The second part is to provide job opportunities and to prevent these newly dispossessed people from finding alternatives to wage labor, while still keeping wages low. The large purchasing power of the FDI money, together with the economic difficulties in the crisis and the IMF’s restructuring program,

provides both economic and political conditions to accelerate the this progress. Chaturvedi (2002: 262) claims that in Asia, the neoliberal World Bank-IMF model of market-oriented land reform “subverts national governments to implement genuine agrarian reform by imposing debt bondage. It does not aim to distribute land to the landless but rather increase the concentration of land with the land elite. The Asian Development Bank, through its privatization program, is even attempting to transfer peasants’ right and access to water as a public resource to private corporations and large-scale producers.”

7.7 Conclusion

The labour-commanded FDI, commodity FDI and land FDI are constructed in this chapter as alternative ways to measure FDI in order to reveal these implications at the time of the Asian financial crisis. Deviating from the traditional measure of FDI in currency terms, the notion of re-conceptualizing FDI in this article is represented by measuring FDI in three different ways, including labour-commanded working hours, the quantity of commodities and land purchasing units.

The results show that all the labour-commanded FDI, commodity FDI and land FDI increased remarkably in the Asian crisis, showing a larger extent of labour commanded working hours and quantity of commodities and land that could be controlled by the FDI money. As the crisis lowered the labour costs and land prices and amplified the FDI flows, the FDI money flowing to Asia had increased labour commanding power and the purchasing power.

Lastly, the problem of accuracy for the data should be stressed. This mainly comes from the labour cost and land price data. First, the data for labour costs is in manufacturing only, due to its ready availability. Secondly, the hourly labour cost data is not readily available so it is converted using the weekly numbers of working hours and monthly labour cost data from International Labour Organization (ILO). Thirdly, the land prices for both Korea and Thailand are from newspapers and information booklets which are not academic sources. Moreover, these figures are only for specific areas, whereas in this research they are used to represent the average land price of the whole country. Finally, data adopted in this research is from different sources and are themselves likely to subject to some errors and are not always comparable. However, they do offer a broad view that illustrates the enlarging labour-commanded FDI, commodity FDI and land FDI associated with the increasing labour-commanded power and the purchasing power during the crisis period.

7.8 Appendix

Hourly labour cost

For both Korea and Thailand, hourly labour cost is estimated by the data source of monthly labour cost and weekly working hours from International Labour Organization (ILO) Laboursta database. The formula for hourly labour cost is:

$$\text{Labor cost/hour} = \frac{\text{labor cost/month} \times 12}{\text{weekly working hours} \times 365 \times 7}$$

According to Laboursta, labour cost is “the cost incurred by the employer in the employment of labour. The statistical concept of labour cost comprises remuneration for work performed, payments in respect of time paid for but not worked, bonuses and gratuities, the cost of food, drink and other payments in kind, cost of workers’ housing borne by employers, employers’ social security expenditures, cost to the employer for vocational training, welfare services and miscellaneous items, such as transport of workers, work clothes and recruitment, together with taxes regarded as labour cost”. For more details, see Laboursta definition of labour cost at: <http://laboursta.ilo.org/applv8/data/c6e.html> (access date: 16 Nov 2010).

Land price

The land prices for Korea are estimated through a change from floating rate of land prices from Bank of Korea ESCO statistics to land price index. The formula for the land price in year n is:

$$\text{Land price index}_n = \frac{\text{land price index}_{n+1} - \text{land price index}_n}{\text{floating rate of land price}_n}$$

The land price for the year of 2004 is taken for the average land price in Korea Industrial Zone, from “Business Expenses in Korea 2004”, published by Korea’s national investment promotion agency – Invest Korea (IK).

Whereas the land price indices for Thailand are from Thailand agency for real estate affairs website at: http://www.area.co.th/english/bar53.php?Land_Price_Index (access date: 16 Nov 2010). The land price for the year of 2010 is taken for the area of Rangsit

from Bangkok Post news titled “Greater Bangkok prices becoming dearer” on 2 Oct 2010. The land prices for other years are calculated accordingly.

Chapter 8 Conclusion

8.1 Lessons from the Asian crisis

The Asian financial crisis in 1997 happened more than a decade ago. However, it certainly gave us a lot to think about and we are still trying to understand its lessons. Since its onset, attempts to understand the crisis have resulted in a great number of studies that highlight various causes of the financial crisis, which are focused on the two factors – financial globalization and domestic vulnerabilities. In searching for the causes of the crisis, this thesis has focused on the financial and corporate sectors. Several arguments have been examined and demonstrated by figures and graphs. A few conclusions can be drawn: first, the global economy witnessed a large surge in private capital flows, especially short-term flows in the 1990s, when deregulated banks in the developed countries were looking for higher return opportunities around the world. After the Mexico crisis in 1994, Southeast Asia was particularly attractive with its rapid economic growth, high interest rate and stable exchange rates. Secondly, East and Southeast Asian economies took this opportunity to attract foreign capital, which consisted of a large amount of short-term, unhedged, foreign currency-denominated speculative capital that sought high and quick returns (Bello, 1999: 40). Thirdly, without the sufficient financial regulation, the domestic banks supplied cheap capital to corporations that were already highly leveraged. Moreover, the Asian currency peg to US dollars, while encouraging capital inflows in the miracle years, became a burden in the 1990s, because it reduced the export competitiveness of many Asian economies when the US dollars appreciated, especially against the Japanese Yen, and it gave a difficult task

for the Asian governments to defend their currencies in the face of rapid loss of foreign reserves.

As has been discussed in chapter 3, several arguments have been built focusing on either the vulnerabilities in the international capital market and financial globalization and liberalization that promote “footloose” short-term capital, or the domestic weaknesses in the Asian development model that lead to highly leveraged companies. The Asian crisis draws people’s attention to both these two factors, but it is difficult to assign the proportion of responsibilities between them. Though these two types of view differ in emphasis, an emerging consensus in the recent literature seems to be that no single factor could have triggered the crisis, as both of these factors have been discussed in various studies with titles along the lines of the “lessons of the Asian crisis” (see for example: Kawai, Newfarmer and Schmukler, 2005; Sundaram, 2009; Athukorala and Warr, 2002; Yellen, 2007).

The discussion of the causes of the crisis has been associated with the Asian development model that has been examined in chapter 2 and the role of the IMF that is reviewed in chapter 4. Regarding the Asian development model, the criticisms from orthodoxists often consider the Asian system as “crony capitalism”, pointing to its corruption and favouritism (Haggard, 2000; Krugman, 1998). The scholars from developmental state school, on the other hand, often point to the financial rationale in the model which is the cooperative, long-term, reciprocal relations between firms, banks and government, in a system which intermediates high savings into high corporate debt/equity ratios (Wade and Veneroso, 1998: 7). The lesson from the Asian crisis does not draw a conclusive answer

to this debate but one thing is clear that the high corporate debt/equity ratio by itself is not a problem, as it has been embedded in the Asia's successful economic development for three decades. The problem is that this model is particularly vulnerable to the volatile short-term international capital flows. The problem is the East and Southeast Asian countries made great progress in financial liberalization in the 1990s, especially the capital account liberalization that made these economies exposed to large amounts of short-term international capital flows.

Regarding the role of IMF, it certainly made some mistakes. The first mistake was the high interest rate. Stiglitz (2002: 110) states the reason for the IMF's high interest rate policy was that it made the crisis-hit countries more attractive for capital inflows, therefore supporting the exchange rate. As it turned out, this did not work. Capital flight did not stop and the consequence of a high interest rate policy was to put more companies into trouble because of their high debt/equity ratio, leading to more bankruptcies and unemployment. The second mistake was the tight fiscal and monetary policy that intended to cut the money supply and government spending to reduce debt and combat inflation. This policy reduced overall demand and shrank the local economy to a larger extent. The reduced government spending eliminated or delayed social welfare programmes, leading to increased poverty in the face of the increasing unemployment and underemployment. The tight fiscal and monetary policies produced criticism aimed at the IMF, that it did not care about the falling employment rate and real wages, but simply asking Asian countries to stop spending and to use whatever they had left to pay the foreign debt. Under the IMF policy, the international investors did not bear any cost for their unsuccessful investment.

The IMF itself admits it drew many “valuable” lessons from the Asian crisis and acknowledged some of its mistakes, such as the fiscal policy it imposed on East Asian countries being excessively austere and its rescue strategy which caused a bank panic that helped set off financial market declines (Sanger, 1998). After a comparison of the IMF program in the Asian crisis in 1997 and in the European crisis in 2008, Takagi (2009) finds a large difference is in the structural conditionality. Whereas in the Asian crisis, the IMF required structural reforms in a wide range of areas, including some which were considered by many to be unrelated to the immediate problem of crisis resolution, such as the “import diversification program” aiming at trade liberalization in Korea and additional structural reforms related to cronyism and corruption in Indonesia, the IMF program in Europe was essentially limited to reforms in the banking sector and the fiscal system (Takagi, 2009: 118 and 120).

Beyond the crisis itself, the key of this research is how people’s life in the East Asia has changed and how these changes relate to neoliberalism and globalization. In chapter 5 and 6, the consequences of Asian crisis are examined in both economic and social aspects. In the relevant literature, the social and economic impacts of the crisis are often analysed on their own (see for example, Pernia and Knowles, 1998; Choi and Chung, 2002; ILO, 1998). This article takes a step further to relating the crisis impacts to the control power of foreign direct investment (FDI).

The crisis’s impacts on the Southeast Asian economies included huge exchange rate depreciation and much lower land and commodity prices, which dramatically reduced the cost of production. The nature of the FDI flowing to Asia represents the long-term

interests of the investor seeking cost advantage. Therefore, the crisis carried large opportunities for foreign investors with the increased purchasing power of their US dollar investments. Moreover, the plunged stock market prices and heavily indebted companies made it cheap to buy local assets, facilitating an increasing number of mergers and acquisitions as a form of FDI. Together with the IMF's conditionality to relax the foreign ownership and investment regulation, the economic impact of the crisis facilitated a massive transfer to foreign ownership into previously prohibited sectors, including banking and financial service sectors and other strategic sectors (IMF, 1999: 5; Mody and Negishi, 2001). As in the case of Thailand, FDI to financial services tripled in 1997 and foreign investors became the second largest type of controlling shareholders, leading to national resistance and economic nationalism (Dixon, 2004). The crisis thus raised the growing danger of the unfair resource exploitation and the loss of national control over economy.

The social impact of the crisis put local people in danger of unemployment, underemployment, falling real wages and growing social inequality. As the number of job seekers increased, a large number of people were forced into a cheap labour force. Historically, Asia has been successful in attracting foreign investments due to its abundant cheap labour force, and been subject to the problem of labour exploitation. When the crisis reduced the labour cost even more, this benefit to the international capitalists raised more concerns about that problem.

The numeric measure of the controlling power of the FDI in chapter 7 is an indicator to show the extent of the danger to local labour and that of the opportunities to the

international capitalists brought by the crisis. The US dollar investment was presented in labour-, land- and commodity- commanded units. The results are astonishing. The potential labour working hours that the FDI money could control doubled in 1997-98 and doubled again in 1998-99 in Korea. The corresponding figure in Thailand tripled in 1997-98. The quantity of commodities the FDI money can buy increased by three times in 1997-99 in Korea. The area of local land the FDI can buy increased by three times in Thailand in 1997-98 and by four times in Korea in 1997-99. These results are attributed to several factors, including the surge of FDI, the huge currency devaluation and the large drop of local labour cost and commodity and land prices.

For global financial institutions such as the World Bank and the IMF, East and Southeast Asia was, through much of the 1990s, the paragon of supposedly free market development, in spite of the significant state intervention. It was there that the Asian “tigers” performed their miraculous economic growth. And it was there that the miracle vanished in 1997 when many of the region’s fastest-growing economies underwent precipitous downturns. It was also there that the neoliberal restructuring programs were implemented with the specific goal of selling or redistribution of public goods to private interests. The creation of so-called neoliberal free market involved coercion and the expropriation of land, resources and labour through disguised forms of primitive accumulation. As pointed out by Marx, enclosure is an inherent step in the making of capitalism. In Asia, there were no exceptions. Brute force and injustice have partnered with the “opening up” of the economies, and the disciplining of populations for privatization and liberalization, and with the enclosures and the transformation of people into wage labour. These processes are part of the primitive accumulation, which have

contributed to the region's being one of the most horrific political violence of the late 1990s.

8.2 Asian economies after the crisis

There were significant changes in macroeconomic policies in the crisis-affected economies in the post-crisis period, including the exchange rate policy and the industrial policy, which brought the most controversy. Because of the failure of the “soft peg” exchange rate policy in the Asian financial crisis, general perception has been generated against the middle ground for exchange rate regimes in developing countries, a doctrine that is known as the “hollow middle” (Hernández and Montiel, 2003: 337). Research by Hernández and Montiel (2003) show that there are conflicts between the *de jure* exchange rate regime and the *de facto* exchange rate policy among emerging markets, that is, the official declarations of the exchange rate regimes and the way they actually conduct exchange rate policy are different. This occurred before the crisis, as well as after the crisis. Except for Thailand, which reported itself as pegged to an (undisclosed) currency basket, none of the Asian crisis countries had officially maintained a fixed exchange rate prior to the crisis, but all five crisis-hit countries had restricted the degree of fluctuation of the bilateral exchange rates against the US dollar. After the crisis, with the exception of Malaysia, currencies in four crisis-hit countries have been officially announced to be independently floating, but Hernández and Montiel (2003) found these crisis countries have actually moved to intermediate exchange regimes in which they are floating more than before but less than completely floating.

Prior to the 1997 crisis, the industrial policy incurred a lot of controversy in relation to

the “miracle” East Asian development. While the developmental state school put much emphasis on its merit of coordination function and providing long-term stable relationships between the financial and corporate sectors, the orthodox school saw it as a distortion of the free market economy. The World Bank (1993) report finally recognized some of the value of industrial policy but emphasized on the “market-friendly” nature of the state interventions. Following the financial crisis, East Asian industrial policies were once again under scrutiny, focusing only on its failures rather than achievements. It was blamed on bringing corruption and cronyism to the East Asian economies and was said to be responsible for irrational bank lending in the crisis. What about the industrial policy after the crisis? Mody (1999) argues the new generation of policies emphasized greater competition and a “level playing field” which sought to reduce government intervention. He further suggests that in a new international environment where government-driven growth is out-dated, it is the time to switch from trade-led growth to the emphasis of efficient utilization of resources.

The Asian financial crisis reveals the primitive accumulation that Marx described in the 19th century has not disappeared but its forms have become normalized and thus enable for further accumulation (De Angelis, 1999). Primitive accumulation through enclosure in East Asia has not occurred only at some initial moment but recurs or remains a threat, even though in different forms. These violent forms are produced and reproduced in different epochs and eras though new types of enclosure and enable primitive accumulation. These include liberalization on the environment and natural resources, the appropriation of land and resources by states and capital, changing legal and policy framework of resources management and governance. Resistance to dispossession,

appropriation, disciplining, boundary making and exploitation has long characterized commodification process in different part of the Asian region. Much such resistance is about resurrecting the “social” part of the social fabric needed for a dignified human existence but undermined by the commodification process. The crisis has cultural, social, and political effects on large amount of populations, creating new sorts of transnational connections, dependencies and opportunities. While the economic downturn facilitated the adoption of stringent neoliberal strategies and large enclosures, the Asian labourers have never stopped fighting against any threat to their survival. As noted by Lucas and Warren (2003), the labourers in Indonesia return to rural areas and regain massive land occupations and non-party-affiliated peasant unions and other associations rise on an unprecedented scale.

References:

- ADB (2001) *Asian Development Outlook 2001*. Manila: Asian Development Bank.
- Agresti, A. and Finlay, B. (1997) *Statistical Methods for the Social Science*, 3rd ed. Upper Saddle River: Prentice Hall.
- Aitken, B., Harrison, A. and Lipsey, R. (1996) Wages and foreign ownership a comparative study of Mexico, Venezuela and the United States. *Journal of International Economics*, 40, pp. 345-71.
- Akamatsu K. (1962) A historical pattern of economic growth in developing countries. *Journal of Developing Economies*, 1(1), pp. 3-25.
- Akyüz, Y. (2000) *Causes and Sources of the Asian Financial Crisis*. Online: http://www.unctad-10.org/pdfs/hi_akyuz.en.pdf.
- Alba, P., Bhattacharya, A., Claessens, S., Ghosh, S. and Hernandez, L. (1999) The role of macroeconomic and financial sector lineages in East Asia's financial crisis. In Agenor, P., Miller, M., Vines, D. and Weber, A. (ed.) *The Asian Financial Crisis: Causes, Contagion and Consequences*. Cambridge: Cambridge University Press.
- Alba, P., Claessens, S. and Djankov, S. (1998) *Thailand's Corporate Financing and Governance Structures*. The World Bank, Policy Research Working Paper 2003.
- Alba, P., Hernandez, L. and Klingebiel, D. (1999) *Financial liberalization and the capital account: Thailand, 1988-97*. World Bank Policy Research Working Paper No. 2188.
- Allen, F. (2001) Financial structure and financial crisis. *International Review of Finance*, 2(1), pp. 1-19.
- Allsopp, L., Rammal, H.G. and Zurbruegg, R. (2005) Purchasing Power Parity and the Asian Financial Crisis: Implications for Policy Makers. *Global Business Review*, 6(2), pp. 251-8.
- Amsden, A. (1989) *Asian's next Giant: South Korea and Late Industrialization*. New York: Oxford University Press.
- Amsden, A. (1994) Why isn't the Whole World Experimenting with the East Asian Model to Develop? A Review of the East Asian Miracle. *World Development*, 22(4), pp. 627-33.
- Apple (2006a) *Report on iPod manufacturing*. <http://www.apple.com/hotnews/ipodreport/>
- Apple (2006b) *Form 10-K: for the Fiscal Year Ended September 30, 2006*. 29 December.

Apple (2007) *Apple Reports First Quarter Results*. 17 January.

Apple (2009) *Apple Supplier Code of Conduct*. Online at: http://images.apple.com/supplierresponsibility/pdf/Supplier_Code_of_Conduct_V3_1.pdf

Aquino, T.G. and Bolanos, A.B. (1995) Foreign Investment Inflows and Philippine Political Stability. In Kenkyujo, N.S. and Institute of Southeast Asian Studies (ed.) *The New Wave of Foreign Direct Investment in Asia*. Singapore: Nomura Research Institute and Institute of Southeast Asian.

Ariff, M. and Khalid, A.M. (2000) *Liberalization, Growth and Asian Financial Crisis: Lessons for Developing and Transitional Economies*. Cheltenham: Edward Elgar.

Ariff, M. and Skully, M. (2004) Banking and regulatory reform in postcrisis Asia. In Ghosh, Mohamed Ariff (ed.) *Global Financial Markets: Issues And Strategies*. Westport: Praeger.

ASEAN (2003) *ASEAN in Figures 2003*. Jakarta: The Association of Southeast Asian Nations (ASEAN).

Asiedu, E. (2004) The determinants of employment of affiliates of US multinational enterprises in Africa. *Development Policy Review*, 22 (4), pp. 371-379.

Athukorala, P. (2003) Foreign direct investment in crisis and recovery: Lessons from the 1997–1998 Asian crisis. *Australian Economic History Review*, 43(2), pp. 197-213.

Athukorala, P. and Warr, P. (2002) Vulnerability to a Currency Crisis: Lessons from the Asian Experience. *The World Economy*, 25(1), pp. 33–57.

Balassa, B. (1981) *The Newly Industrializing Countries in the World Economy*. New York: Pergamon.

Balassa, B. (1988) The Lessons of East Asian Development: an Overview. *Economic Development and Cultural Change*, 36(3), pp.S273-90.

Balassa, B. (1991) *Economic Policies in the Pacific Area Developing Countries*. New York: New York University Press.

Baldwin, H. (2006) How Foxconn surpassed Flextronics. *Reed Electronics*, 22 June.

Baldwin, R. (1994) The Effects of Trade and Foreign Direct Investment on Employment and Relative Wages. *OECD Economic Studies*, 23, pp. 7–53.

Bank for International Settlements (1996a) *The Maturity, Sectoral and Nationality Distribution of International Bank Lending*. Basle: Bank for International Settlements.

Bank for International Settlements (1996b) *Annual Report 1996*. Basle: Bank for International Settlements.

Bank for International Settlements (1997) *Annual Report 1997*. Basle: Bank for International Settlements.

Bank for International Settlements (1998) *Annual Report 1998*. Basel: Bank for International Settlements.

Bank of Korea (1987) *National Accounts*. Seoul: BOK.

Barrell, R. and Pain, N. (1997) Foreign direct investment, technological change, and economic growth within Europe. *Economic Journal*, 107(445), pp. 1770-86.

Barth, J., Caudill, S., Hall, T. and Yago, G. (2000), 'Cross-country Evidence on Banking Crises: Do Financial Structure and Banking Regulation matter? In George G. Kaufman (ed.) *Banking Fragility and Regulation: Evidence from Different Countries*. Amsterdam: JAI press.

Baumüller, H. (2009) *Competing for Business: Sustainable Development Impacts of Investment Incentives in Southeast Asia*. Canada: International Institute for Sustainable Development.

BBC (2006) *Apple Admits Excessive iPod Hours*. Online at: <http://news.bbc.co.uk/1/hi/technology/5262110.stm>

Bebchuk, L.A. and Roe, M.J. (1999) A theory of path dependence in corporate ownership and governance. *Stanford Law Review*, 52(1), pp. 127-70.

Bellak, C. (2004) How performance gaps between domestic firms and foreign affiliates matter for economic policy. *Transnational Corporations*, 13(2), 29-55.

Bello, W. (1999) The Asian financial crisis: causes, dynamics, prospects. *Journal of the Asia Pacific Economy*, 4(1), pp. 33-55.

Bello, W. (2007) *All Fall Down: Ten Years after the Asian Financial Crisis*. Europe solidaire sans frontières. Online at: www.europe-solidaire.org/spip.php?article6967

Bende-Nabende, A., Ford, J. and Slater, J. (2001) FDI, Regional Economic Integration and Endogenous Growth: Some Evidence from Southeast Asia. *Pacific Economic Review*, 6(3), pp. 383-99.

Bende-Nabendem, A. and Ford, J. L. (1998) FDI, policy adjustment and endogenous growth: multiplier effects from a small dynamic model for Taiwan, 1959-1995. *World Development*, 26(7), pp. 1315-330.

Berger, M. (1997) Post-Cold War Indonesia and the revenge of history: the colonial legacy, nationalist visions and global capitalism. In Berger, M. and Borer, D. (ed.) *The Rise of East Asia: Critical Visions of the Pacific Century*. London and New York: Taylor & Francis.

Bhagwati, J. (1986) Rethinking trade strategy. In Lewis, J. and Kallab, V. (ed.) *Development Strategies Reconsidered: A New Synthesis*. New York: Transaction Publishers

Bhagwati, J. (1998a) The capital myth: the difference between trade in widgets and dollars. *Foreign Affairs*, 77(3), pp. 7-12.

Bhagwati, J. (1998b) *Asian Financial Crisis Debate: Why? How severe?* Paper presented at the International Conference on Managing the Asian Financial Crisis: Lessons and Challenges, Asian Strategic Leadership Institute and Rating Agency, Malaysia (2–3 November), Kuala Lumpur.

Bhagwati, J. (2004) *In Defense of Globalization*. New York: Oxford University Press.

Bhattacharya, A. and Miller, M. (1999) Coping with crisis: is there a “silver bullet”? In Agenor, P., Miller, M., Vines, D. and Weber, A. (ed.) *The Asian Financial Crisis: Causes, Contagion and Consequences*. Cambridge: Cambridge University Press.

Blaikie, N. (1993) *Approaches to Social Enquiry: Advancing Knowledge*. Cambridge: Polity Press.

Blaikie, N. (2000) *Designing Social Research: The Logic of Anticipation*. Cambridge: Polity Press.

Blalock, G. and Gertler, P. (2005) Foreign Direct Investment and Externalities: the Case for Public Intervention. In Moran, T., Graham, E. and Blomstrom, M. (ed.) *Does Foreign Direct Investment Promote Development?* Washington, D.C.: Peterson Institute for International Economics.

Bleakley, H. and Cowan, K. (2004) Maturity mismatch and financial crises: evidence from emerging market corporations. *Journal of Development Economics*, 93(2), pp. 189-205.

Blomstrom, M. and Kokko, A. (1998) Multinational Corporations and Spillovers. *Journal of Economic Surveys*, 12 (3), pp. 247-77.

Blonigen, B. (1997) “Firm-specific assets and the link between exchange rates and foreign direct investment. *American Economic Review*, 87(3), pp. 447-65.

Blonigen, B. and Wang, M. (2005) Inappropriate pooling of wealthy and poor countries in empirical FDI studies. In Moran, T., Graham, E. and Blomstrom, M. (ed.) *Does Foreign Direct Investment Promote Development?* Washington, D.C.: Peterson Institute for International Economics.

Boje, David. (2002) *Academics Studying Nike*. Online: <http://cbae.nmsu.edu/~dboje/%20nike.html>

- Borensztein, E., De Gregorio, J. and Lee, J. W. (1998) How does foreign direct investment affect economic growth? *Journal of International Economics*, 45(1), pp.115-35.
- Boughton, J. (2002) Globalization and the Silent Revolution of the 1980s. *Finance and Development*, 39(1), pp. 40-3.
- Brohman, J. (1996) Postwar Development in the Asian NICs: Does the Neoliberal Model Fit Reality? *Economic Geography*, 72(2), pp. 107-30.
- Brown, A. (2001) After the Kader fire: labor organizing for health and safety standards in Thailand. In Hutchison, J. and Brown, A. (ed.) *Organizing Labor in Globalizing Asia*. London: Routledge.
- Bryman, A. (2008) *Social Research Methods*, 3rd ed. Oxford: Oxford University Press.
- Buchanan, J.M., Tollison, R.D. and Tullock, G. (1980) *Toward a Theory of the Rent-seeking Society*. College Station: Texas A&M University Press.
- Buchs, T. (1999) Financial crisis in the Russian Federation: are the Russians learning to tango? *Economics of Transition*, 7(3), pp. 687-715.
- Bullard, N., Bello, W. and Mallhotra, K. (1998) Taming the tigers: the IMF and the Asian crisis. *Third World Quarterly*, 19(3), pp. 505-55.
- Burgess, J. and Connell, J. (2007) *Globalization and Work in Asia*. Oxford: Chandos Publishing.
- Burnside, C., Eichenbaum, M. and Rebelo, S. (1999) *Prospective Deficits and the Asian Currency Crisis*. The World Bank Policy Research Working Paper Series 2174.
- Burton, M. and Brown, B. (2009) *The Financial System and the Economy: Principles of Money and Banking*. New York: M.E. Sharpe.
- BusinessWeek (2010) *Foxconn Worker Dies in China after Chairman's Visit*. <http://www.businessweek.com/news/2010-05-27/foxconn-worker-dies-in-china-after-chairman-s-visit-update1-.html>
- Caffentzis, G. (2005a) *No Blood For Oil! Energy, Class Struggle, and War, 1998-2004*. Online at: www.radicalpolitics.org/caffentzis/no_blood_for_oil-entire_book.pdf
- Caffentzis, G. (2005b) Dr. Sachs, Live8 and neoliberalism's 'plan B'. In Harvie, D., Milburn, K., Trott, B. and Watts, D. (ed.) *Shut Them Down! The G8, Gleneagles 2005 and the Movement of Movements*. Leeds: Dissent! and Brooklyn, NY: Autonomedia.
- CAFOD (2004) *Clean up your Computer: Working Conditions in the Electronics Industry*. London: The Catholic Agency For Overseas Development.

CAFOD (2005) *Clean up your Computer Progress Report*. London: The Catholic Agency For Overseas Development.

CAFOD (2006) *Computer Conditions Update 2006*. London: The Catholic Agency For Overseas Development.

Camdessus, M. (1998) *Capital account liberalization and the role of the fund*. Press Release. 98/5, Remarks at the IMF Seminar on Capital Account Liberalization, Washington, DC, March 9, 1998. Online at: <http://www.imf.org/external/np/speeches/1998/030998.htm>.

Campbell, G. (1996) *The NAFTA war*. Online at: www.tc.umn.edu/~fayxx001/text/naftawar.html

Campodonico, H. (2002) Argentina: Sheer neoliberal lunacy. *Third World Resurgence* magazine, Issue No. 137-138. Online at: <http://www.twinside.org.sg/title/twr137a.htm>

Caprio, G. (1998) *Banking on Crises: Expensive Lessons from Recent Financial Crises*. The World Bank Policy Research Working Paper WPS 1979.

Carkovic, M. and Levine, R. (2005) Does Foreign Direct Investment Accelerate Economic Growth? In Moran, T., Graham, E. and Blomstrom, M. (ed.) *Does Foreign Direct Investment Promote Development?* Washington, D.C.: Peterson Institute for International Economics.

Cathie, J (1997) Financial contagion in East Asia and the origins of the economic and financial crisis in Korea. *Asia Pacific Business Review*, 4(2), pp. 18-28.

Caves, R. (1989) Mergers, Takeovers, and Economic Efficiency: Foresight vs. Hindsight. *International Journal of industrial Organization*, 7(1), pp. 151-74.

Chan, V. (2000) Foreign Direct Investment and Economic Growth in Taiwan's Manufacturing Industries. In Ito, T. and Krueger, A. (ed.) *The Role of Foreign Direct Investment in East Asian Economic Development*. NBER Book Series East Asia Seminar on Economics Volume 9. Chicago: The University of Chicago Press.

Chandrasekhar, C. and Ghosh, J. (1998) Hubris, Hysteria, Hope: The Political Economy of Crisis and Response in Southeast Asia. In Jomo, K.S. (ed.) *Tigers in Trouble: Financial. Governance, Liberalization and Crises in East Asia*. London: Zed Books.

Chang, H.J. (1993) The political economy of industrial policy in Korea. *Cambridge Journal of Economics*, 17(2), pp. 131-57.

Chang, H.J. (1994) *The Political Economy of Industrial Policy*. London: Macmillan.

Chang, H.J. and Park, H.J. (2004) An alternative perspective on government policy towards the chaebol in Korea: industrial policy, financial regulations, and political

democracy. In Jwa, S.H. and Lee, I.K. (ed.) *Competition and Corporate Governance in Korea: Reforming and Restructuring the Chaebol*. Cheltenham: Edward Elgar.

Chang, H.J., Park, H.J., and Yoo, C.G. (1998) Interpreting the Korean Crisis: financial liberalization, industrial policy and corporate governance. *Cambridge Journal of Economics*, 22(6), pp. 735-46.

Chang, R. and Velasco, A. (1999) *Liquidity Crisis in Emerging Markets: Theory and Policy*. NBER working paper, No. 7272.

Chang, S.S., Gunnell, D., Sterne, J.A., Lu, T.H. and Cheng, A.T. (2009) Was the economic crisis 1997–1998 responsible for rising suicide rates in East/Southeast Asia? A time-trend analysis for Japan, Hong Kong, South Korea, Taiwan, Singapore and Thailand. *Social Science & Medicine*, 68 (7), pp.1322-31.

Chaturvedi, P. (2002) *Food security in South Asia*. New Delhi: Concept Publishing Company.

Chaturvedi, S. (2005) Evolving a National System of Biotechnology Innovation: Some Evidence from Singapore. *Science Technology & Society*, 10(1), 105-27.

Chen, B., Hsu, M. and Chen, J. (1999) Technology adoption and technical efficiency in a developing economy: Foreign investment led versus export performance promoted. In Fu, T., Huang, C. and Knox Lovell, C. A. (ed.) *Economic Efficiency and Productivity Growth in the Asia-Pacific Region*. Cheltenham: Edward Elgar Publishing.

Chen, C. and Findlay, C. (2003) A Review of Cross-border Mergers and Acquisitions in APEC. *Asian-Pacific Economic Literature*, 17(2), pp. 14-38.

Chen, E. (1993) Foreign Direct Investment in East Asia. *Asian Development Review*, 11(1) pp. 24-59.

Chen, J.H. and Jan, T.S. (2005) A system dynamics model of the semiconductor industry development in Taiwan. *The Journal of the Operational Research Society*, 56(10), pp. 1141- 50.

Cheng, C.Y. (1989) Totality and Mutuality: Confucian Ethics and Economic Development. In Chung-Hua Institute for Economic Research (ed.) *Conference on Confucianism and Economic Development in East Asia*. Taipei: Chung-Hua Institute for Economic Research.

Cheng, L. and Hsiung, P. C. (1998) Engendering the “economic miracle”: the labour market in the Asia-Pacific.” In Thompson, G. (ed.) *Economic Dynamism in the Asia Pacific*. London: Routledge.

Cheong, K. (2001) Economic Crisis and Income Inequality in Korea. *Asian Economic Journal*, 15(1), pp. 39-60.

Cherry, J. (2007) *Foreign Direct Investment in Post-Crisis Korea European Investors and “Mismatched Globalization”*. New York: Routledge.

Chia, S. Y. (1993a) *The Dynamics of East Asian Growth-reform and Government Management*. Paper presented at a conference on ‘Sustaining the Development Process’ held at the Australian National University, Canberra.

Chia, S.Y. (1993b) Foreign direct investment in ASEAN economies. *Asian Development Review*, 11(1), pp. 60-102.

Chin, K.F. and Jomo, K.S. (2003) From financial liberalization to crisis in Malaysia. In Lee, C. (ed.) *Financial Liberalization and the Economic Crisis in Asia*. London: RoutledgeCurzon.

Chiu, S.Y. and Lui, T. (1998) The role of state in economic development. In Thompson, G. (ed.) *Economic Dynamism in the Asia-Pacific: The Growth of Integration and Competitiveness*. London: Routledge.

Cho, Y.J. (2001) The role of poorly phased liberalization in Korea’s financial crisis. In Caprio, G., Honohan, P. and Stiglitz, J. (ed.) *Financial liberalization: how far, how fast?* Cambridge: Cambridge University Press.

Choe, H.S. and Jung, H.Y. (2002) Structural causes of the Asian financial crisis. In Hooley, R. and Yoo, J.H. (ed.) *The Post-financial Crisis Challenges for Asian Industrialization*. Oxford: Elsevier Science.

Choi, B. (1993) Financial policy and big business in Korea: the perils of financial regulation. In Haggard, S., Lee, C. and Maxfield, S. (ed.) *The Politics of Finance in Developing Countries*. New York: Cornell University Press.

Choi, I. B., and Hyun, J. T. (1991) *Effects of Foreign Direct Investment on Productivity: the Case of Manufacturing Industries in Korea and Taiwan* (in Korean). KIEP Policy Report no. 91-05. Seoul: Korea Institute for International Economic Policy.

Choi, Y. and Chung, C. (2002) *Social Impact of the Korean Economic Crisis*. EADN Regional Project on the Social Impact of the Asian Financial Crisis. EADN RP1-4.

Chowdhury A. and Islam I. (2001) *The East Asian Crisis a Political Economy Explanation*. *Institute of Southeast Asian Studies*. ISEAS working papers visiting researchers series, no. 1.

Chowdhury, A. and Islam, I. (1993) *The newly industrializing Economies of East Asia*. London: Routledge.

Chowdhury, A. and Kirkpatrick, C. (1987) Industrial Restructuring in a Newly Industrialization Country: The Identification of Priority Industries in Singapore. *Applied Economics*, 19(7), pp. 915-26.

Christian, A. (2004) *Behind the Mask: The Real Face of Corporate Social Responsibility*. Online: http://www.christian-aid.org.uk/indepth/040%20Icsr/csr_behindthemask.pdf

Chu, Y.H. (1994) The state and the development of the automobile industry in South Korea and Taiwan. In Aberbach, J., Dollar, D. and Sokoloff, K. (ed.) *The Role of the State in Taiwan's Development*. New York: M. E. Sharpe.

Chung, K., Lee, H.C. and Jung, K.H. (1997) *Korean Management: Global Strategy and Cultural Transformation*. Berlin: Walter de Gruyter & Co.

Claessens, S., Djankov, S. and Ferri, G. (1999) Corporate Distress in East Asia: Assessing the Impact of Interest and Exchange Rate Shocks. *Emerging Markets Quarterly*, 3(2), pp. 8-14.

Claessens, S., Djankov, S. and Lang, L. (1998a) *Corporate growth, financing, and risks in the decade before East Asia's financial crisis*. The World Bank Policy Research Working Paper Series 2017.

Claessens, S., Djankov, S. and Lang, L. (1998b) *Who Controls East Asian corporations?* The World Bank Policy Research Working Paper Series 2054.

Coffey, P. and Riley, R. (2006) *Reform of the International Institutions: The IMF, World Bank and the WTO*. Cheltenham: Edward Elgar.

Collins, S.M. and Bosworth, B.P. (1996) Economic Growth in East Asia: Accumulation versus Assimilation. *Brookings Papers on Economic Activity*, 2, pp. 135-203.

Collyns, C. and Senhadji, A. (2002) *Lending booms, real estate bubbles and the Asian crisis*. IMF working paper WP/02/20.

Comparative Historical Analysis. Cambridge: Polity Press.

Connor, T. (2001) *Still Waiting for Nike to Do It*. Online: <http://www.globalexchange.org/economy/corporations/nike/NikeReport.pdf>

Copeland, L. (2005) *Exchange Rates and International Finance, 4th ed.* Essex: Prentice Hall.

Corbett, J. and Vines, D. (1999) The Asian crisis: lessons from the collapse of financial systems, exchange rates and macroeconomic policy. In Agenor, P., Miller, M., Vines, D. and Weber, A. (ed.) *The Asian Financial Crisis: Causes, Contagion and Consequences*. Cambridge: Cambridge University Press.

Corsetti, G., Pesenti, P. and Roubini, N. (1999a) What caused the Asian currency and financial crisis? *Japan and the World Economy*, 11(3), pp. 305-373.

Corsetti, G., Pesenti, P. and Roubini, N. (1999b) The Asian crisis: an overview of the

empirical evidence and policy debate. In Agenor, P., Miller, M., Vines, D. and Weber, A. (ed.) *The Asian Financial Crisis: Causes, Contagion and Consequences*. Cambridge: Cambridge University Press.

Corsetti, G., Pesenti, P. and Roubini, N. (1999c) Paper tigers? A model of the Asian crisis. *European Economic Review*, 43 (7), pp. 1211-236.

Coxhead, I. and Plangprophan, J. (1998) Thailand's Economic Boom and Bust, and the Fate of Agriculture. *TDR Quarterly Review*, 13(2), pp. 15-24.

Daily Mail (2006) *The Stark Reality of iPod's Chinese Factories*. <http://www.dailymail.co.uk/news/article-401234/The-stark-reality-iPods-Chinese-factories.html>

Das, D. (1999) *Implications of the Financial Crisis for Asian Exports*. Asian Development Bank, EDRB Briefing Notes Number 8.

Das, D. (2000) *Asian crisis: distilling critical lessons*. UNCTAD Discussion Paper No. 152. Geneva: UNCTAD.

De Angelis, M. (1999) Marx's Theory of Primitive Accumulation: a Suggested Reinterpretation. Online: <http://homepages.uel.ac.uk/M.DeAngelis/PRIMACCA.htm>.

De Angelis, M. (2007) *The Beginning of History: Value Struggles and Global Capital*. London: Pluto Press.

De Angelis, M. and Harvie, D. (2008) Globalization? No question! Foreign direct investment and labour commanded. *Review of Radical Political Economics*, 40(4), pp.429-44.

De Janvry, A. and Sadoulet, E. (1998) Growth, Poverty and Inequality in Latin America: a Causal Analysis, 1970–94. *Review of Income & Wealth*, 46(3), pp. 267-87.

De Mello, L. (1997) Foreign Direct Investment in Developing Countries and Growth: A Selective Survey. *Journal of Development Studies*, 34 (1), pp. 1-34.

De Mello, L. (1999) Foreign Direct Investment Led Growth: Evidence from Time-series and Panel Data. *Oxford Economic Papers*, 51, pp. 133-51.

Demirguc-Kunt, A. and Levine, R. (1999) *Bank-Based and Market-Based Financial Systems: Cross-Country Comparisons*. World Bank Policy Research Working Paper No.2143.

Demirguc-Kunt, A. and Levine, R. (2001) *Financial Structure and Economic Growth: A Cross-Country Comparison of Banks, Markets, and Development*. Cambridge: MIT Press.

- Dent, C. (2002) *The Foreign Economic Policies of Singapore, South Korea and Taiwan*. Cheltenham: Edward Elgar.
- Dent, C. (2004) The political economy of foreign direct investment in Southeast Asia: economic security perspectives. In Freeman, N. and Bartels, F. (ed.) *The future of foreign investment in Southeast Asia*. London: RoutledgeCurzon.
- Devinney, T. and Kirchner, S. (1997) Perspectives on Growth: Implications for Asia, Australia and New Zealand. *Journal of Agenda*, 4(4), pp. 407-18.
- DeWinter, R. (2001) The Anti-Sweatshop Movement: Constructing Corporate Moral Agency in the Global Apparel Industry. *Ethics and International Affairs*, 15(2), pp. 99-115.
- Dfiaz-Alejandro, C. (1985) Good-bye financial repression, hello financial crash. *Journal of Development Economics*, 19(1/2), pp. 1-24.
- Dixon, C. (2004) Post-crisis restructuring: foreign ownership, corporate resistance and economic nationalism in Thailand. *Contemporary Southeast Asia*, 26(1), pp. 45-72.
- Doner, R. and Ramsay, A. (2000) Rent-seeking and economic development in Thailand. In Khan, M. and Sundaram, J. (ed.) *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*. Cambridge: Cambridge University Press.
- Dopico, L. and Wilcox, J. (2002) Openness, profit opportunities and foreign banking. *Journal of International Financial Markets, Institutions and Money*, 12(4), pp. 299-320.
- Dornbusch, R. (1997) A Thai-Mexico primer. *The International Economy*, 11(4), pp. 20-3.
- Dossani, S. (2007) *Interview with Noam Chomsky: War, Neoliberalism and Empire in the 21st Century*. *CounterPunch*, March 9/11, 2007. Online at: <http://www.counterpunch.org/dossani03092007.html>
- Driffield, N. and Pal, S. (2001) The East Asian crisis and financing corporate investment: is there a cause for concern? *Journal of Asian Economics*, 12(4), pp. 507-27.
- Dunning, J. (1994) Determinants of foreign direct investment: globalization-induced changes and the role of policies. In Tungodden, B. and Stern, N. and Kolstad, I. (ed.) *Toward Pro-Poor Policies: Aid, Institutions, and Globalization*. New York: World Bank and Oxford University Press.
- Dunning, J. (1994) Re-evaluating the benefits of foreign direct investment. *Transnational Corporations*, 3(1), 23-52.
- Dunning, J. and Lundan, S. (1993) *Multinational Enterprises and the Global Economy*, 2ed. Cheltenham: Edward Elgar.

- Dymski, G. (2003) The international debt crisis. In Michie, J. (ed.) *The Handbook of Globalisation*. Cheltenham: Edward Elgar.
- Economic Planning Board (EPB) (1968, 1984) *White Paper on the Economy*. Seoul, Economic Planning Board.
- Eichengreen, B. (1999) *Toward a New International Financial Architecture: A Practical Post-Asia Agenda*. Washington, D.C.: Institute for International Economics.
- Eichengreen, B. (2004) *Capital Flows and Crises*. Cambridge: MIT Press.
- Elster, J. (1983) *Explaining Technical Change: A Case Study in the Philosophy of Science*. Cambridge: Cambridge University Press.
- Ernst, C. (2005) *The FDI – employment link in a globalizing world: The case of Argentina, Brazil and Mexico*. ILO Employment Strategy Paper 2005/17. Geneva: ILO.
- Esbenshade, J. (2004) *Monitoring Sweatshops: Workers, Consumers, and the Global Apparel Industry*. Philadelphia: Temple University Press.
- Estanislao, J., Manzano, G. and Pasadilla, G. (2000) The Asian financial crisis: An East Asian perspective. *Asian-Pacific Economic Literature*, 14(1), pp. 11-22.
- Eto, S. (1997) Continuity and discontinuity in East Asia. In Ikeo, A. (ed.) *Economic Development in Twentieth Century East Asia*. London: Routledge.
- Evans, P. (1995) *Embedded Autonomy: States and Industrial Transformation*. Princeton: Princeton University Press.
- Fallows, J. (1994) *Looking at the Sun: The Rise of the New East Asian Economic and Political System*. New York: Pantheon Books.
- FAO (2003) *Agricultural Commodities: Profiles and Relevant WTO Negotiations Issues*. Rome: Food and Agriculture Organization of the United Nations.
- Federici, S. (1990) *The Debt crisis, Africa and the new enclosures*. Midnight Notes 10. Online at: <http://www.midnightnotes.org/newenclos.html>
- Fine, B. (2003) *Social Capital Versus Social Theory: Political Economy and Social Science at the Turn of the Millennium*. London: Routledge.
- Fischer, S. (1998a) In Defense of the IMF: Specialized Tools for a Specialized Task. *Foreign Affairs*, 77(4), pp. 103-6.
- Fischer, S. (1998b) *The IMF and the Asian crisis*. Paper prepared for Forum Funds Lecture at UCLA on March 20 1998. Online at: <http://www.imf.org/external/np/speeches/1998/032098.HTM>

- Fishlow, A. (1990) The Latin American State. *Journal of Economic Perspectives*, 4(2), pp. 61-74.
- Friedman, M. and Friedman, R. (1980) *Free to Choose*. New York: Harvest Books.
- Fritz-Krockow, B. and Ramlogan P. (2007) *International Monetary Fund Handbook: Its Functions, Policies, and Operations*. Washington, D.C.: IMF.
- Fröbel, F., Heinrichs, J. and Hreye, O. (1980) *The New International Division of Labor: Structural Unemployment in Industrialized Countries and Industrialization in Developing Countries*. Cambridge: Cambridge University Press.
- Froot, K and Stein, J. (1991) Exchange Rates and Foreign Direct Investment: An Imperfect Capital Markets Approach. *Quarterly Journal Economics*, 106(4), pp. 1191-1217.
- Frost, S. and Burnett, M. (2007) Case study: the Apple iPod in China. *Corporate Social Responsibility and Environmental Management*, 14(2), pp. 103-13.
- Fry, M. (1989) Financial development: theories and recent experience. *Oxford Review of Economic Policy*, 5(4), pp. 13-27.
- Fung, A., O’rourke, D. and Sabel, C. (2001) *Can We Put an End to Sweatshops? A New Democracy Form on Raising Global Labor Standards*. Boston: Beacon Press.
- Furman, J. and Stiglitz, J. (1998) Economic crises: evidence and insights from East Asia. *Brookings Papers on Economic Activity*, 2, pp. 1-135.
- Galudra, G. and Sirait, M.T. (2006) *The Unfinished Debate: Socio-Legal and Science Discourses on Forest Land-use and Tenure Policy in 20th Century Indonesia*. Paper presented to the 11th Biennial Congress of the International Association for the Study of Common Property, 19-23 June 2006, Bali.
- Gastanaga, V.C., Nugent, J. and Pashamova, B. (1998) Host Country Reforms and FDI Inflows: How Much Difference Do They Make? *World Development*, 26(7), pp. 1299-314.
- Gereffi, G. (2002) *The International Competitiveness of Asian Economies in the Apparel Commodity Chain*. Asian Development Bank ERD Working Paper no. 5, Manila: Asian Development Bank.
- Gerschenkron, A. (1962) *Economic Backwardness in Historical Perspective*. Cambridge, MA: Harvard University Press.
- Ghysels, E. and Seon, J. (2005) The Asian financial crisis: the role of derivative securities trading and foreign investors in Korea. *Journal of International Money and Finance*, 24(4), pp. 607-30.

- Glen J. and Singh, A. (2005) Corporate Governance, Competition and Finance: Rethinking Lessons from the Asian Crisis. *Eastern Economic Journal*, 31(2), pp.219-42.
- Glick, R. (1999) Thoughts on the origins of the Asian crisis: impulses and propagation mechanisms. In Hunter, W., Kaufman, G. and Krueger, T. (ed.) *The Asian Financial Crisis: Origins, Implications and Solutions*. Norwell: Kluwer Academic Publishers.
- Goldberg, L. and Klein, M. (1998) Foreign Direct Investment, Trade, and Real Exchange Rate. Linkages in Developing Countries. In Glick, R. (ed.) *Managing Capital Flows and Exchange Rates: Perspectives from the Pacific Basin*. Cambridge: Cambridge University Press.
- Goldstein, M. (1998) *The Asian Financial Crisis: Causes, Cures, and Systemic Implications*. Washington, D.C.: Institute for International Economics.
- Goldstein, M. (2003) IMF Structural Programs. In Feldstein, M. (ed.) *Economic and Financial Crises in Emerging Market Economies. National Bureau of Economic Research*. Chicago: University of Chicago Press.
- Goldstein, M., Kaminsky, G. and Reinhart, C. (2000) *Assessing Financial Vulnerability: an Early Warning System for Emerging Markets*. Washington, D.C.: Institute for International Economics.
- Goldstein, N. (2007) *Globalization and Free Trade*. New York: Inforbase Publishing.
- Gopinath, M. and Chen, W. (2003) Foreign direct investment and wages: a cross-country analysis. *The Journal of International Trade & Economic Development*, 12 (3), pp. 285-309.
- Gorg, H. and Greenaway, D. (2004) Much Ado about Nothing? Do Domestic Firms Really Benefit from Foreign Direct Investment? *World Bank Research Observer*, 19, pp. 171-97.
- Gray, J. (1998) *False Dawn: The Delusions of Global Capitalism*. New York: The New Press.
- Green, A. (1992) South Korea's Automobile Industry: Development and Prospects. *Asian Survey*, 32(5), pp. 411-428.
- Greenspan, A. (1998) *The current Asia crisis and the dynamics of international finance*. Testimony before the Committee on Banking and Financial Services, US House of Representatives, January 30, 1998. Online at: <http://www.federalreserve.gov/boarddocs/testimony/1998/19980130.htm>
- Greenspan, A. (1999) *Lessons from the global crises*. Address to the World Bank Group and International Monetary Fund. Washington, D.C., September 27.

- Grossman, M. (1979) Women's Place in the Integrated Circuit. *Southeast Asia Chronicle*, 66, pp. 2-17.
- Guillen, M. (2001) *The Limits of Convergence: Globalization and Organizational Change in Argentina, South Korea, and Spain*. Princeton: Princeton University Press.
- Haggard, S. (1990) *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. Ithaca: Cornell University Press.
- Haggard, S. (2000) *The Political Economy of the Asian Financial Crisis*. Washington, D.C.: Institute for International Economics.
- Haggard, S., Cooper, R., Collins, S., Kim, C. and Ro, S. (1994) *Macroeconomic Policy and Adjustment in Korea, 1970-1990*. Cambridge: Harvard Institute for International Development.
- Haggard, S., Lim, W. and Kim E. (2003) *Economic crisis and corporate restructuring in Korea: reforming the chaebol*. Cambridge: Cambridge University Press.
- Hahnel, R. (2000) Let's Review Today's Holy Trinity: IMF - WORLD BANK - WTO. Online: <http://emanzipationhumanum.de/english/WTO011.html>
- Hale, D. (1998) Will Mexico's recovery from crisis be a model for East Asia? In McLeod, R. and Garnaut, R. (ed.) *East Asia in Crisis: From Being a Miracle to Needing One*. London: Routledge.
- Hall, D. (1981) *A History of South East Asia, 4th ed.* New York: Palgrave Macmillan.
- Hamann, J. (1999) Background to the crisis. In Lane, T., Gosh, A., Hamann, J., Phillips, S., Schulze-Ghattas, M. and Tsikata, T. (ed.) *IMF-Supported Programs in Indonesia, Korea and Thailand: A Preliminary Assessment*. Washington, D.C.: International Monetary Fund.
- Handley, P. (1997) More of the same? Politics and business, 1987-96. In Hewison, K. (ed.) *Political Change in Thailand: Democracy and Participation*. London and New York, Routledge.
- Hansmann, H. and Kraakman, R. (2001) The end of history for corporate law. *Georgetown Law Journal*, 89(2), pp. 439-68.
- Hanson, G. (2001) *Should Countries Promote Foreign Direct Investment?* UNCTAD: G-24 Discussion Paper Series No. 9. Geneva: UNCTAD.
- Harris, R. and Ravenscraft, D. (1991) The Role of Acquisitions in Foreign Direct Investment: Evidence from the U.S. Stock Market. *Journal of Finance*, 46(3), pp. 825-44.
- Hart-Landsberg, M. (1993) *The Rush To Development: Economic Change and Political*

Struggle in South Korea. New York, NY: Monthly Review Press.

Hartman, L. and Arnold, D. (2005) Beyond sweatshops positive deviancy and global labor practices. *Business Ethics: A European Review*, 14 (3), pp. 206–222.

Hartman, L., Arnold, D. and Wokutch, R. (2003) *Rising above Sweatshops Innovative Approaches to Global Labor Challenges*. New York: Praeger.

Harvey, C. and Roper, A. (1999) The Asian bet. In Harwood, A., Litan, R. and Pomerleau, M. (ed.) *Financial markets and development: The Crisis in Emerging Financial Markets*. Washington, D.C.: Brookings Institution Press.

Harvey, D. (2007) *A Brief History of Neoliberalism*. Oxford: Oxford University Press.

Hayashi, S. (2006) *Japan and East Asian monetary regionalism: towards a proactive leadership role?* Oxford and New York: Routledge.

Heckscher, E. (1919) The Effect of Foreign Trade on the Distribution of Income. *Ekonomisk Tidskrift*, 21, pp. 497-512. (Reprinted in Ellis, H. and Metzler, L. (ed.) *Readings in the Theory of International Trade*. Philadelphia: The Blakiston Company.

Henderson, C. (1998) *Asia Falling: Making Sense of the Asian Crisis and Its Aftermath*. Singapore: McGraw-Hill.

Henderson, D. (2001) *Misguided Virtue: False Notions of Corporate Social Responsibility*. London: Institute for Economic Affairs.

Henderson, J. (1989) *The Globalization of High Technology Production: Society, Space and Semi-Conductors in the Restructuring of the Modern World*. London: Routledge.

Hew, D. (2002) ASEAN: economic and financial developments in 2001. In Singh, D. and Smith, A. (ed.) *Southeast Asian Affairs 2002*. Pasir Panjang: Institute of Southeast Asian Studies.

Hewison, K. (2000) Thailand's capitalism before and after the economic crisis. In Robison, R., Beeson, M., Jayasuriya, K. and Kim, H.R. (ed.) *Politics and Markets in the Wake of the Asian Crisis*. London: Routledge.

Higgott, R. (2000) The intentional relations of the Asian economic crisis: a study in the politics of resentment. In Robison, R., Beeson, M., Jayasuriya, K. and Kim, H. R. (2000) *Politics and markets in the wake of the Asian crisis*. London: Routledge.

Hill, H. (1990) Indonesia's industrial Transformation part II. *Bulletin of Indonesian Economics Studies*, 26, pp. 75-109.

Hill, H. and Johns, B. (1985) The Role of Direct Foreign Investment in Developing East Asian Countries. *Weltwirtschaftliches Archiv*, 121(2), pp. 355-81.

Hirschmann, A. (1958) *The Strategy of Economic Development*. New Haven, CT: Yale University Press.

Hollingsworth, D. (2007) *The rise, the fall, and the recovery of Southeast Asia's minidragons: how can their history be lessons we shall learn during the twenty-first century and beyond?* Lanham: Lexington Books.

Hotchkiss, E. and Mooradian, R. (1998) Acquisitions as a Means of Restructuring Firms in Chapter 11. *Journal of Financial Intermediation*, 7(3), pp. 240-62.

Huang, X. (2005) *The Rise and Fall of the East Asian Growth System, 1951-2000*. New York: Routledge Curzon.

Hussain, Q. and Wihlborg, C. (1999) *Corporate Insolvency Procedures and Bank Behavior: A Study of Selected Asian Economies*. IMF Working Paper No. 99/135.

Hymer, S. (1979) *The Multinational Corporation: A Radical Approach*. Cambridge: Cambridge University Press.

ILO (1998) *The Social impact of the Asian Financial Crisis*. High-Level Tripartite Meeting on Social Responses to the Financial Crisis in East and South-East Asian Countries.

ILO (2001) *Key Indicators of the Labor Market 2001-2002*. Geneva: International Labor Office.

ILO (2003) *Key Indicators of the Labor Market, 3rd ed.* Geneva: International Labor Office.

IMF (1993) *Balance of Payments Manual, 5th ed.* Washington, D.C.: IMF.

IMF (1997) *World Economic Outlook: Crisis in Asia, Regional and Global Implication. Interim Assessment December 1997*. Washington, D.C.: IMF.

IMF (1998) *Annual Report of the Executive Board for the Financial Year Ended April 30, 1998*. Washington, D.C.: IMF.

IMF (2000) *Annual Report of the Executive Board for the Financial Year Ended April 30, 2000*. Washington, D.C.: IMF.

Jacobsson, S. (1993) The Length of the Infant Industry Period: Evidence from the Engineering Industry in South Korea. *World Development*, 21(3): 407-19.

James, W., Naya, S. and Meier, G. (1989) *Asian Development: Economic Success and Policy Lessons*. Madison: University of Wisconsin Press.

Jenkins, R. (1995) The Political Economy of Industrial Policy: Automobile Manufacture in the Newly Industrialising Countries. *Cambridge Journal of Economics*, 19(5), pp. 625-

45.

Jessop, B. (1999) Reflections on globalization and its (il)logic(s). In Olds, K., Dicken, P., Kelly, P., Kong, L. and Yeung, W. (ed.) *Globalization and the Asia Pacific – Contested territories*. London: Routledge.

Jessop, B. (2005) A regulationist and state-theoretical analysis. In Boyd, R. and Ngo, T.W. (ed.) *Asian States: Beyond the Developmental Perspective*. New York: Routledge.

Joh, S. W. (2004) The Korean Economic Crisis and Corporate Governance System. In Ito, T. and Krueger, A. (ed.) *Governance Regulation and Privatization in the Asia-Pacific Region*. National Bureau of Economic Research East Asia Seminar on Economics Volume 12. Chicago and London: University of Chicago Press.

Joh, S. W. and Kim, E. (2003) Corporate governance and performance in the 1990s. In Haggard, S., Lim, W. and Kim, E. (ed.) *Economic crisis and corporate restructuring in Korea: reforming the chaebol*. Cambridge: Cambridge University Press.

Johnson, C. (1982) *The MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*. Stanford: Stanford University Press.

Johnson, C. (1985) Political Institutions and Economic Performance: Government – Business Relationship in Japan, South Korea and Taiwan. In Scalapino, R. et al. (ed.) *Asian Economic Development – Present and Future*. Berkeley, CA: Institute of East Asian Studies.

Johnson, C. (1995). *Japan, who governs? The Rise of the Developmental State*. New York: W. W. Norton & Co.

Jomo, K.S. (1996) Lessons from growth and structural change in the second-tier south East Asian newly industrializing countries. *East Asian Development: Lessons for a New Global Environment*, study No. 4. Geneva: UNCTAD.

Jomo, K.S. (1998) *Tigers in Trouble: Financial Governance, Liberalization and Crises in East Asia*. London: Zed Books.

Jomo, K.S. (2001) Rethinking the role of government policy in Southeast Asia. In Stiglitz, J. and Yusuf, S. (ed.) *Rethinking the East Asian miracle*. New York, Oxford University Press for World Bank.

Jomo, K.S. (2004) Southeast Asian developmental states in comparative East Asian perspective. In Low, L. (ed.) *Developmental states: relevancy, redundancy or reconfiguration?* New York: Nova Science Publishers.

Jones, L. and Sakong, I. (1980) *Government, Business and Entrepreneurship in economic Development: the Korea Case*. Cambridge, Mass: Harvard University Press.

- Jung, I. (2009) Explaining the Development and Adoption of Social Policy in Korea: The Case of the National Basic Livelihood Security Act. *Health and Social Welfare Review*, 29(1), pp. 52-81.
- Jung, K.H. (1991) *Diversification and Industrial Competitiveness*. Seoul: Korea Economic Research Institute.
- Kamaly, A. (2007) Trends and Determinants of Mergers and Acquisitions in Developing Countries in the 1990s. *International Research Journal of Finance and Economics*, 8, pp. 16-30.
- Kaminsky, G. and Reinhart, C. (1998) The Twin Crises: The Causes of Banking and Balance-of-Payments Problems. *American Economic Review*, 89(3), pp. 473-500.
- Kang, D. (2002) *Crony Capitalism: Corruption and Development in South Korea and the Philippines*. Cambridge: Cambridge University Press.
- Kang, J. (1993) The International Market for Corporate Control: Mergers and Acquisitions of U.S. Firms by Japanese Firms. *Journal of Financial Economics*, 34(3), pp. 345-71.
- Kang, S., Keum, J., Kim, D. and Shin, D. (2001) Korea: labor market outcomes and policy responses after the crisis. In Betcherman, G. and Isiam, R. (ed.) *East Asian Labor Markets and the Economic Crisis: Impacts Responses and Lessons*. Washington, D.C.: World Bank Publications.
- Kawai, M. and Urata, S. (2004) Trade and foreign direct investment in East Asia. In Brouwer, G. and Kawai, M. (ed.) *Exchange Rate Regimes in East Asia*. London and New York: RoutledgeCurzon.
- Kawai, M., Newfarmer, R. and Schmukler, S. (2005) Financial Crises: Nine Lessons from East Asia. *Eastern Economic Journal*, 31(2), pp.185-207.
- KDB (Korea Development Bank) (1981) *Strategic Industries of the 1980s*. Seoul: KDB.
- Kelly, S. (2004) *Community Planning: How to Solve Urban and Environmental Problems*. Lanham: Rowman & Littlefield Publishers.
- Kester, W.C. (1992) Industrial groups as systems of contractual governance. *Oxford Review of Economic Policy*, 8(3), pp. 24-44.
- Kester, W.C. (1996) American and Japanese corporate governance: converge on best practice? In Berger, S. and Dore, R. (ed.) *National Diversity and Global Capitalism*. New York: Cornell University Press.
- Khan, H.A. (2003) *Corporate Governance: The Limits of the Principal-Agent Approach in Light of the Family-Based Corporate Governance System in Asia*. CIRJE discussion

paper, Faculty of Economics, University of Tokyo.

Khan, M.H. (2000) Rents, efficiency and growth. In Khan, M. and Sundaram, J. (ed.) *Rents, Rent-Seeking and Economic Development: Theory and Evidence in Asia*. Cambridge: Cambridge University Press.

Khatkhate, D. (1998) East Asian Financial Crisis and the IMF: Chasing Shadows. *Economic and Political Weekly*, 33(17), pp. 963-969.

Kim, A. and Park, I. (2006) Changing trends of work in South Korea: the rapid growth of underemployment and Job Insecurity. *Asian Survey*, 46(3), pp. 437-56.

Kim, D. (2002) The Korea labor market: the crisis and after. In Coe, D. and Kim, S. (ed.) *Korean Crisis and Recovery*. Washington D.C.: International Monetary Fund.

Kim, E. (2004) The social perils of the Korean financial crisis. *Journal of Contemporary Asia*, 34(2), pp. 221-37.

Kim, J. and Hwang, S. I. (2000) The Role of Foreign Direct Investment in Korea's Economic Development: Productivity Effects and Implications for the Currency Crisis. In Ito, T. and Krueger, A. (ed.) *The Role of Foreign Direct Investment in East Asian Economic Development*. NBER-East Asia Seminar on Economics Volume 9. Chicago and London: The University of Chicago Press.

Kim, J. K. (2002) An estimation of the productive efficiency of chaebols of Korea and their reform. *International Journal of Social Economics*, 29(3), pp.172-86.

Kim, L. (1997) *Imitation to Innovation: the Dynamics of Korea's Technological Learning*. Boston: Harvard Business School Press.

Kim, M. and Jaffe, S. (2010) *The New Korea: An Inside Look at South Korea's Economic Rise*. New York: AMACOM.

Kim, S.J. and Stone, M. (1999) *Corporate Leverage, Bankruptcy, and Output Adjustment in Post-crisis East Asia*. IMF working paper WP/99/143.

Kim, W. S. and Lee, Y. (2008) Korea's FDI-led economic liberalism: a critical view. *Asian Perspective*, 32(1), pp. 165-92.

Kim, Y. and Rajapakse, P. (2001) Mobilizing and Managing Foreign Private Capital in Asian Developing Countries. *Asia-Pacific Development Journal*, 8(1), pp. 101-21.

Kinoshita, Y. and Campos, A. (2006) Determinants and effects of foreign direct investment in transition economies. In Nakagawa, J. (ed.) *Managing development: globalization, economic restructuring and social policy*. London & new York: Routledge.

Kittiprapas, S. (2002) *Social Impacts of Financial and Economic Crisis in Thailand*.

EADN Regional Project on the Social Impact of the Asian Financial Crisis.

Klein, N. (2000) *No Logo: Taking Aim at the Brand Bullies*. New York: Picador USA.

Koh, W., Mariano, R., Pavlov, A., Phang, S., Tan, A. and Wachter, S. (2005) Bank lending and real estate markets in Asia: market optimism and real estate bubbles. *Journal of Asian Economics*, 15(6), pp. 1103-118.

Kohli, A. (1994) Where Do High Growth Political Economies Come From? The Japanese Lineage of Korea's "Developmental State". *World Development*, 22(9), pp. 1269-93

Kohli, A. (2004) *State-Directed Development - Political Power and Industrialization in the Global Periphery*. Cambridge: Cambridge University Press.

Kolk, A., Tulder, R. and Welters, C. (1999) International codes of conduct and corporate social responsibility: can transnational corporations regulate themselves? *Transnational Corporations*, 8(1), pp. 143-80.

Koo, B.Y. (1985) The Role of Direct Foreign Investment in Korea's Recent Economic Growth. In Galenson, W. (ed.) *Foreign Trade and Investment: Economic Development in the Newly Industrializing Asian Countries*. Madison: University of Wisconsin Press.

Koo, H. (2007) The Changing Faces of Inequality in South Korea in the Age of Globalization. *Korean Studies*, 31, pp. 1-18.

Koo, J. and Kiser, S. (2001) Recovery from a Financial Crisis: The Case of South Korea. Federal Reserve Bank of Dallas, *Economic and Financial Policy Review*, 4, pp. 24-36.

Kotler, P. and Lee, N. (2005) *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*. Hoboken: John Wiley & Sons.

Kristof, N. (1998) *Crisis Pushing Asian Capitalism Closer to U.S.-Style Free Market*. New York Times news on January 17, 1998. Online at: <http://www.nytimes.com/1998/01/17/world/international-business-crisis-pushing-asian-capitalism-closer-us-style-free.html>

Kristof, N. (2000) Brutal drive. In Kristof, N. and WuDunn, S. (ed.) *Thunder From the East: Portrait of a Rising Asia*. New York, NY: Knopf.

Krueger, A. (1974) The Political Economy of the Rent-Seeking Society. *American Economic Review*, 64(3), pp.291-303.

Krueger, A. (1986) Changing perspective on development economics and World Bank research. *Development Policy Review*, 4(3), pp. 195-210.

Krueger, A. (1995) The role of trade in growth and development: theory and lessons from experience. In Garnaut, R., Grilli, E. and Riedel, J. (ed.) *Sustaining Export-Oriented*

- Development: Ideas from East Asia*. Cambridge: Cambridge University Press.
- Krugman, P. (1994) The myth of Asia's miracle. *Foreign Affairs*, 73(6), pp. 62-78.
- Krugman, P. (1998a) *What Happened to Asia*. Online at: <http://web.mit.edu/krugman/www/DISINTER.html>.
- Krugman, P. (1998b) *Will Asia Bounce Back?* Online at: <http://web.mit.edu/krugman/www/suisse.html>
- Krugman, P. (1998c) *Fire Sale FDI*. MIT Working Paper. Online at: <http://web.mit.edu/krugman/www/FIRESALE.htm>
- Krugman, P. (1998d) *The Confidence Game: How Washington Worsened Asia's Crash*. Online at: <http://www.pkarchive.org/crises/krugman1.html>
- Krugman, P. (1999a) Balance Sheets, the Transfer Problem, and Financial Crises. *International Tax and Public Finance*, 6(4), pp. 459-72.
- Krugman, P. (1999b) *Capital Control Freaks: How Malaysia got away with economic heresy*. Online at: <http://slate.msn.com/id/35534>
- Krugman, P. (2003) Crying with Argentina. In *The Great Unravelling: Losing Our Way in the New Century*, New York: W. W. Norton & Co.
- Krugman, P. (2008) *The Return of Depression Economics and the Crisis of 2008*. London: Penguin Books.
- Kumar, R. and Debroy, B. (1999) *The Asian Crisis: an Alternative View*. Asian Development Bank Economic Staff Paper No. 59.
- Kwon, E. (2004) Financial liberalization in South Korea. *Journal of Contemporary Asia*, 34(1), pp. 70-101.
- Kwon, J. (1994) The East Asian Challenge to Neoclassical Orthodoxy. *World Development*, 22(4), pp.635-44.
- La Porta, R., Lopez de-Silanes, F., Shleifer, A. and Vishny, R.W. (1998) Law and finance. *Journal of Political Economy*, 106(6), pp. 1113–1155.
- Lal, D. (1983) *The Poverty of Development Economics*. London: MIT press.
- Lal, D., and Rajapatirana, S. (1987) Foreign Trade Regimes and Economic Growth in Developing Countries. *World Bank Research Observer*, 2(2), pp.189-217.
- Lall, S. (1994) The East Asian miracle: Does the bell toll for industrial strategy? *World Development*, 22(4), pp. 645-54.

- Lall, S. (1996) *Learning from the Asian Tigers: Studies in Technology and Industrial Policy*. London: Macmillan.
- Lall, S. and Urata, S. and the World Bank (2003) *Competitiveness, FDI and Technological Activity in East Asia*. Cheltenham: Edward Elgar.
- Lane, T., Ghosh, A., Hamann, J., Phillips, S., Schulze-Ghattas, M. and Tsikata, T. (1999) *IMF-supported programs in Indonesia, Korea, and Thailand: a Preliminary Assessment*. IMF Occasional Paper 178. Washington D.C.: IMF.
- Lane, T., Ghosh, A., Hamann, J., Schulze-Ghattas, M., Bulir, A. and Mourmouras, A. (2000) *IMF-Supported Programs in Capital Account Crises*. IMF Occasional Paper 210. Washington D.C.: IMF.
- Lawrence, R. (1996) *Single World, Divided Nations? International Trade and the OECD Labor Markets*. Washington, DC and Paris: Brookings Institution and the OECD Development Centre.
- Lee, E. (1998) *The Asian Financial Crisis: The Challenge for Social Policy*. Geneva: International Labor Organization.
- Leipziger, D. (1988) Industrial Restructuring in Korea. *World Development*, 16(1). pp. 121-135
- Leipziger, D. and Thomas, V. (1993) *The Lessons of East Asia: An Overview of Country Experience*. Washington, D.C.: World Bank.
- Lichtenstein, N. (2002) *State of the Union: A Century of American Labor*. Princeton: Princeton University Press.
- Lim, C., Chowdhury, A. and Islam, I. (1988) *Policy Options for the Singapore Economy*. Singapore: McGraw-Hill.
- Lim, L. (1980) Women workers in multinational corporations: the case of the electronics industry in Malaysia and Singapore. In Kumar, K. (ed.) *Transnational Enterprises: Their Impact on Third World Societies and Cultures*. Boulder: Westview Press.
- Lim, W. (2003) The emergence of the chaebol and the origins of the chaebol problem. In Haggard, S., Lim, W. and Kim E. (ed.) *Economic crisis and corporate restructuring in Korea: reforming the chaebol*. Cambridge: Cambridge University Press.
- Lin, C. (1988) East Asia and Latin America as contrasting models. *Economic Development and Cultural Change*, 36(3), pp. S153-97.
- Lin, J. (1989) Beyond neoclassical shibboleths: A political-economic analysis of Taiwanese economic development. *Dialectical Anthropology*, 14(4), pp. 283-300.

- Lindgren, C., Balino, T., Enoch, C., Gulde, A., Quintyn, M. and Teo, L. (1999) *Financial Sector Crisis and Restructuring: Lessons from Asia*. IMF Occasional Paper 188. Washington, D.C.: IMF.
- Lipschutz, R. (2005) *Globalization, Governmentality and Global Politics Regulation for the Rest of Us*. London and New York: Routledge.
- Lipsey, R. (2001) *Foreign Direct Investment in Three Financial Crisis*. NBER working paper 8084. Cambridge: National Bureau of Economic Research.
- Lipsey, R. (2004) *The labor market effects of US FDI in developing countries*. ILO employment strategy papers 2004/6. Geneva: ILO.
- Lipsey, R. and Sjöholm, F. (2001) *Foreign direct investment and wages in Indonesian manufacturing*. NBER working paper 8299.
- Lipsey, R. and Sjöholm, F. (2004) FDI and wage spillovers in Indonesian manufacturing. *Review of World Economics*, 40, 321-32.
- Lipsey, R. and Sjöholm, F. (2006) Foreign MNCs and wages in Indonesia. In Ramstetter, E. and Sjöholm, F (ed.) *Multinational Corporations in Indonesia and Thailand*. London: Palgrave Macmillan.
- Lipsey, R., Sjöholm, F. and Sun, J. (2010) *Foreign Ownership and Employment Growth in Indonesian Manufacturing*. NBER working paper No. 15936. National Bureau of Economic Research, Inc.
- Longman, P.J. and S. Ahmad (1998) *The Bailout Backlash: How to think about the IMF and its critics*. US News and World Report, 1/25/98. Online at: http://www.usnews.com/usnews/biztech/articles/980202/archive_003111_2.htm
- Lucas, A. and Warren, C. (2003) The state, the people and their mediators: the struggle over agrarian law reform in post-New Order Indonesia. *Indonesia*, 76, pp. 87-126.
- Lucas, R.E. (1993) Making a Miracle. *Econometrica*, 61(2), pp. 251-272.
- Luo, Y.D. (1999) *Entry and Cooperative Strategies in International Business Expansion*. Westport: Quorum Books.
- MacEwan, A. (2002) Economic debacle in Argentina: The IMF strikes again. *Third World Resurgence* magazine, Issue No. 137-138. Online at: <http://www.twinside.org.sg/title/twr137b.htm>
- Mahmood, M. and Aryah, G. (2001) The labor market and labor policy in a macroeconomic context: growth, crisis and competitiveness in Thailand. In Betcherman, G. and Isiam, R. (ed.) *East Asian Labor Markets and the Economic Crisis: Impacts Responses and Lessons*. Washington, D.C.: World Bank Publications.

- Manning, C. (1998) *Indonesian Labor in Transition: an East Asian Success story?* Cambridge: Cambridge University Press.
- Manzur, M. and Ariff, M. (1995), Purchasing power parity: new methods and extensions. *Applied Financial Economics*, 5(1), pp. 19-26.
- Marshall, D. (1998) Understanding the Asian crisis: Systemic risk as coordination failure. *Economic Perspectives*, 22(3), pp. 13-28.
- Martinez-Diaz, L. (2006) Pathways through financial crisis: Indonesia. *Global Governance*, 12(4), pp. 395- 412.
- Marx, K. (1887) *Capital, Vol 1*. Moscow: Progress Publishers.
- Marx, K. (1973) *Grundrisse: Foundations of the Critique of Political Economy*. Harmondsworth: Penguin.
- Marx, K. (1988) *Economic and Philosophic Manuscripts of 1844 and the Communist Manifesto*. New York: Prometheus Books.
- Marx, K. and Engels, F. (1967 [1848]) *The Communist Manifesto*. London: Penguin Books.
- Masuyama, S. (1999) Introduction: the evolution of financial systems in East Asia and their responses to financial and economic crisis. In Masuyama, S., Vandenbrink, D. and Chia, S.Y. (ed.) *East Asia's Financial Systems: Evolution and Crisis*. Singapore: Institute of Southeast Asian Studies.
- Mazurek, J. (1999) *Making Microchips: Policy, Globalization, and Economic Restructuring in the Semiconductor Industry*. Cambridge: MIT Press.
- McKinnon, R.I. (1973) *Money and Capital in Economic Development*. Washington, D.C.: Brookings Institution.
- McKinnon, R. I. (1986) Issues and Perspectives: An Overview of Banking Regulation and Monetary Control. In Tan, A. H. H. and Kapur, B. (ed.) *Pacific Growth and Financial Interdependence*. Sydney: Allen & Unwin.
- McNally, D. (1998) Globalization on trial: crisis and class struggle in East Asia. In Wood, E., Meiksins, P. and Yates, M. (ed.) *Rising from the Ashes? Labor in the Age of "Global" Capitalism*. New York: Monthly Review Press.
- McQuillan, L. (1999) *The Case Against the International Monetary Fund*. Stanford: Hoover Institution on War, Revolution and Peace, Stanford University.
- Meaney, C. S. (1994) State policy and the development of Taiwan's semiconductor industry. In Aberbach, J., Dollar, D. and Sokoloff, K. (ed.) *The Role of the State in*

Taiwan's Development. New York: M. E. Sharpe.

Mehmet, O. and Tavakoli, A. (2003) Does foreign direct investment cause a race to the bottom? *Journal of the Asia Pacific Economy*, 8 (2), pp.133-56.

Meinzen-Dick, R., Kameri-Mbote, P. and Markelova, H. (2009) Property rights for poverty reduction. In Braun, J.V., Hill, R.V. and Pandya-Lorch, R. (ed.) *The Poorest and Hungry: Assessments, Analyses, and Actions: An IFPRI 2020 book*. Washington, D.C.: International Food Policy Research Institute.

Meltzer, A. (1999) What's wrong with the IMF? What would be better? *The Independent Review*, 4(2), pp. 201-15.

Midnight Notes Collective (1990) *Introduction to the new enclosures*. Midnight Notes 10. Online at: <http://www.midnightnotes.org/newenclos.html>

Midnight Notes Collective (2004) The new enclosures: planetary class struggle. In Solnit, D. (ed.) *Globalize Liberation: How to Uproot the System and Build a Better World*. San Francisco: City Lights Books.

Mies, M. (1998) *Patriarchy and Accumulation on A World Scale: Women in the International Division*. New York: Zed Books.

Mises, L. V. (1953) *The Theory of Money and Credit*. New Haven: Yale University Press.

Mitton, T. (2002) A cross-firm analysis of the impact of corporate governance on the East Asian financial crisis. *Journal of Financial Economics*, 64 (2), pp. 215–241.

Mody, A. and Negishi, S. (2001) Cross-Border Mergers and Acquisitions in East Asia: Trends and Implications. *Finance and Development*, 38(1), pp. 1-8.

Moerland P. (1995) Alternative Disciplinary Mechanisms in Different Corporate Systems. *Journal of Economic Behavior and Organization*, 26(1), pp. 17-34.

Moore, M. (1993) Declining to learn from the East? The World Bank on governance and development. *IDS Bulletin*, 24(1), pp. 39-50.

Moore, P. (2007) *Globalisation and Labour Struggle in Asia: A Neo-Gramscian Critique of South Korea's Political Economy*. London and New York: I.B.Tauris & Co Ltd.

Moran, T. (1998) *Foreign Direct Investment and Development*. Washington: Institute for International Economics.

Moran, T. (2002) *Beyond Sweatshops Foreign Direct Investment and Globalization in Developing Countries*. Washington, D.C.: The Brookings Institution.

Movshuk, O. and Matsuoka-Movshuk, A. (2006) Multinational corporations and wages in Thai manufacturing. In Ramstetter, E. and Sjöholm, F (ed.) *Multinational Corporations*

in Indonesia and Thailand. London: Palgrave Macmillan.

Murphy, A. (2000) Indonesia and globalization. In Kim, S. (ed.) *East Asia and Globalization*. Oxford: Rowman & Littlefield Publishers.

Mussa, M. (2004) Argentina and the Fund: anatomy of a policy failure. In Vines, D. and Gilbert, C. L. (ed.) *The IMF and Its Critics: Reform of Global Financial Architecture*. Cambridge: University of Cambridge Press.

Nakamura, S. and Oyama, T. (1998) *The Determinants of Foreign Direct Investment from Japan and the United States to East Asian Countries, and the Linkage between FDI and Trade*. Bank of Japan Working Paper 98-11.

Natenuj, S. (2000) *Poverty and Inequality during Crisis Period in Thailand*. Online: http://dirp3.pids.gov.ph/ris/wbi/Country%20Report_Thailand.PDF

Neiss, H. (1998) *Discipline must be maintained despite breathing space: Supachai*. Bangkok Post, 14 February.

Nellor, D. (2000) Shaping East Asia's recovery: post-crisis reform of the international financial system. In Drysdale, P. (ed.) *Reform and Recovery in East Asia: The Role of the State and Economic Enterprise*. London: Routledge.

Nevins, J. and Peluso, N.L. (2008) *Taking Southeast Asia to Market: Commodities, Nature and People in the Neoliberal Age*. Ithaca, NY: Cornell University Press.

New York Times (1997) *I.M.F. Chief Vouches for Thai Reforms*. September 19, p. 3. 1997.

New York Times (1998) *Second-Guessing The Economic Doctor*. February 1, 1998.

New York Times (2010a) *Foxconn Increases Size of Raise in Chinese Factories*. Online at: <http://www.nytimes.com/2010/06/07/business/global/07foxconn.html>

New York Times (2010b) *As China's Wages Rise, Export Prices Could Follow*. Online at: <http://www.nytimes.com/2010/06/08/business/global/08wages.html>

Ngo, T.W. (2009) Rent Seeking under the Licensing State: The Institutional Sources of Economic Corruption in China. In Ngo, T.W. and Wu, Y. (ed.) *Rent Seeking in China*. London: Routledge.

Nidhiprabha, B. (1998) Adverse consequences of capital flows and Thailand's optimal policy mix. In Kwan, C.H., Vandenbrink, D. and Chia, S.Y. (ed.) *Coping with Capital Flows in East Asia*. Singapore: Institute of Southeast Asian Studies.

Nidhiprabha, B. (2003) Premature liberalization and economic crisis in Thailand. In Lee, C. (ed.) *Financial Liberalization and the Economic Crisis in Asia*. London:

RoutledgeCurzon.

Norberg, J. (2003) *In defense of global capitalism*. Washington, D.C.: Cato Institute.

O'Rourke, D. (2000) *Monitoring the Monitors: A Critique of PricewaterhouseCoopers Labor Monitoring*. Online at: <http://web.mit.edu/dorourke/www/PDF/pwc.pdf>

Obstfeld, M. and Taylor, A. (2004) *Global Capital Markets: Integration, Crisis and Growth*. Cambridge: Cambridge University Press.

OECD (1988) *The Newly Industrializing Countries – Challenge and Opportunity for OECD industries*. Paris: OECD.

OECD (1998) *Foreign Direct Investment and Economic Development: Lessons from Six Emerging Economies*. Paris: OECD.

OECD (1999a) *OECD Economic Surveys: Korea 1999*. Paris: OECD.

OECD (1999b) *Asia and the Global Crisis: The Industrial Dimension*. Paris: OECD.

OECD (1999c) *Codes of Corporate Conduct: An Inventory*. Paris: OECD.

OECD (2000) *OECD employment outlook: June 2000*. Paris: OECD.

OECD (2001a) *Corporate Governance in Asia: a Comparative Perspective*. Paris: OECD.

OECD (2001b) *Corporate Responsibility: Results of a Fact-Finding Mission on Private Initiatives*. Paris: OECD.

OECD (2002) *Foreign Direct Investment for Development: Maximizing Benefits, Minimizing Costs*. Paris: OECD.

OECD (2006) *Miracle, Crisis and Beyond: A Synthesis of Policy Coherence towards East Asia*. Paris: OECD.

OECD (2008) *OECD Employment Outlook, 2008*. Paris: OECD.

Oh, D., Choi C. and Choi, E. (1998) The Globalization Strategy of Daewoo Motor Company. *Asia Pacific Journal of Management*, 15(2), pp. 185-203.

Oh, J. (2001) Governance re-invented: the progress, constraints, and remaining agenda in bank and corporate restructuring in the republic of Korea. In UNESCAP (ed.) *Governance Re-invented: the Progress, Constraints, and Remaining Agenda in Bank and Corporate Restructuring in East and South-East Asia*. New York: United Nations Economic and Social Commission for Asia and the Pacific.

Ohlin, B. (1933) *Interregional and International Trade (1967 edition)*. London: Oxford

University Press.

Ostry, S. (1997) *The Post-Cold War Trading System Who's on First?* Chicago: The University of Chicago Press.

Pack, H. and Westphal, L. (1986) Industrial strategy and technological change: theory versus reality. *Journal of Development Economics*, 22(1), pp. 87-128.

Pang, F.E. (1995) Staying Global and Going Regional: Singapore's Inward and Outward Direct Investments. In Kenkyujo, N.S. and Institute of Southeast Asian Studies (ed.) *The New Wave of Foreign Direct Investment in Asia*. Singapore: Nomura Research Institute and Institute of Southeast Asian.

Park, D. and Kang, I. (2000) Foreign Direct Investment in Korea: Recent Developments and Prospects. *Asian Affairs*, 27(1), pp. 3-16.

Park, N. (2001) *Poverty Rate and Poverty Line in Korea*. Online at: http://www3.pids.gov.ph/ris/wbi/Country%20report_korea.PDF

Park, P. H. (2000) A Reflection on the East Asian Development Model: Comparison of the South Korean and Taiwanese Experiences." In Richter, F.J. (ed.) *The East Asian Development Model: Economic Growth, Institutional Failure and the Aftermath of the Crisis*. London: Macmillan Press.

Park, Y.C. (2000) On reforming the international financial system: an East Asian perspective. In Adhikari, R. and Hiemenz (ed.) *Achieving Financial Stability in Asia*. Paris: OECD.

Park, Y.C. (2006) *Economic Liberalization and Integration in East Asia: A Post-Crisis Paradigm*. Oxford: Oxford University Press.

Patrick, H. (1977) The future of the Japanese economy: output and labor productivity. *Journal of Japanese Studies*, 3(2), pp. 219-49.

Pawson, R. (1989) *A Measure for Measures: A Manifesto for Empirical Sociology*. London: Routledge.

Peet, R. (2003) *Unholy trinity: the IMF, World Bank and WTO*. London: Zed Books Ltd.

Peluso, N. and Vandergeest, P. (2001) Genealogies of the political forest and customary rights in Indonesia, Malaysia, and Thailand. *The Journal of Asian Studies*, 60(3), pp. 761-812.

Peng, D. (1997) Does Confucianism matter? The role of the oriental tradition in economic development. In Ikee, A. (ed.) *Economic Development in Twentieth Century East Asia*. London: Routledge.

- Pernia, E. and Knowles, J. (1998) *Assessing the Social Impact of the Financial Crisis in Asia*. Asian Development Bank, Economics and Development Resource Centre.
- Phongpaichit, P. and Baker, C. (1998) *Thailand's Boom and Bust*. Chiang Mai: Silkworm Books.
- Phongpaichit, P. and Baker, C. (1999) The political economy of the Thai crisis. *Journal of the Asia Pacific Economy*, 4(1), pp. 193-208.
- Phongpaichit, P. and Baker, C. (2001a) Thailand's Crisis: Neo-Liberal Agenda and Local Reaction. In Chang, H.J., Palma, G. and Whittaker, D.H. (ed.) *Financial Liberalization and the Asian Crisis*. London: Palgrave.
- Phongpaichit, P. and Baker, C. (2001b) *Thailand's Crisis*. Washington, D.C.: University of Washington Press.
- Pomerleano, M. (1998) *The East Asia Crisis and Corporate Finances: The Untold Micro Story*. The World Bank Policy Research Working Paper WPS 1990.
- Popper, K. (1960) *The Poverty of Historicism*, 2nd ed. London: Routledge and Kegan.
- Powell, B. and Skarbek, D. (2006) Sweatshops and third world living standards: Are the jobs worth the sweat? *Journal of Labor Research*, 27(2), pp. 263-274.
- Prowse, S. (1998) *Corporate Governance: Emerging Issues and Lessons from East Asia*. World Bank, mimeo.
- Prowse, S. (1999) Corporate governance in East Asia: a framework for analysis. In UNESCAP (ed.) *Asian Economic Crisis: Causes, Consequences and Policy Lessons*. New York: United Nations Economic and Social Commission for Asia and the Pacific.
- Punch, K. (2005) *Introduction to Social Research: Quantitative and Qualitative Approaches*, 2nd ed. London: Sage.
- Putzel, J. (2002) Development state and crony capitalists. In Masina, P. (ed.) *Rethinking Development in East Asia: From Illusory Miracle to Economic Crisis*. Surrey: Curzon Press.
- Radelet, S. and Sachs, J. D. (1998) The East Asian financial crisis: diagnosis, remedies, prospects. *Brookings Papers on Economic Activity*, 28(1), pp. 1-90.
- Radice, H. (2008) The Developmental State under Global Neoliberalism. *World Quarterly*, 29(6), pp. 1153-1174.
- Raftery, J. and Anson, M. (2004) South Korea. In Chiang Y. H., Anson, M. and Raftery, J. (ed.) *The construction sector in the Asian economies*. Abingdon: Spon Press.
- Rajan, R. and Zingales, L. (1998) Financial dependence and growth. *The American*

Economic Review, 88(3), pp. 559-86.

Rama, M. (2003) *Globalization and workers in developing countries*. The World Bank Policy Research Working Paper 2958. Washington, D.C.: World Bank.

Ranis, G. and Schive, C. (1985) Direct Foreign Investment in Taiwan's Development. In Galenson, W. (ed.) *Foreign Trade and Investment: Economic Development in the Newly Industrializing Asian Countries*. New York: Cornell University Press.

Ray, A.K. (2008) Self-help groups, micro finance and political economy. In Deb, B.J., Sengupta, K. and Ray, B.D. (ed.) *Globalization and North East India*. New Delhi: Concept Publishing Company.

Reading, B. (1997) *Why the IMF has got it wrong*. Financial Times, 20 Dec, 1997.

Renaud, B. (2000) How real estate contributed to the Thailand financial crisis. In Mera, K. and Renaud, B. (ed.) *Asia's Financial Crisis and the Role of Real Estate*. New York: M.E. Sharpe.

Ricardo, D. (1817) *On The Principles of Political Economy and Taxation*. (Reprint in 2001 of the third edition 1821, Kitchener: Batoche Books).

Ridding, J. and Kyngé, J. (1998) *Complacency Gives Way to Contagion, Special Report: Asia in Crisis*. Financial Times, January 13, page 6. 1998.

Riedel, J. (1991) Intra-Asian trade and foreign direct investment. *Asian Development Review*, 9(1), pp. 111-46.

Rizvi, S. and Nishat, M. (2009) *The Impact of Foreign Direct Investment on Employment Opportunities: Panel Data Analysis-Empirical Evidence from Pakistan, India and China*. Online at:
<http://www.pide.org.pk/psde/25/pdf/Day3/Syed%20Zia%20Abbas%20Rizvi.pdf>

Robison, R. and Rosser, A. (1998) Contesting reform: Indonesia's new order and the IMF. *World Development*, 26(8), pp. 1593-609.

Robison, R., Beeson, M., Jayasuriya, K. and Kim, H. R. (2000) *Politics and Markets in the Wake of the Asian Crisis*. London: Routledge.

Roche, J. (2005) *Corporate Governance in Asia*. New York: Routledge.

Rodrik, D. (1997) *Has Globalization Gone Too Far?* Washington DC: Institute for International Economics.

Rodrik, D. (1998) *Who Needs Capital Account Convertibility?* Mimeo, Harvard University. Online: <http://people.umass.edu/econ721/rodrik.98.princetonessay.PDF>

Rodrik, D. (1999) *Governing the Global Economy: Does One Architectural Style Fit All?*

In Collins, S. and Lawrence, R. (ed.) *Brookings Trade Forum: 1999*. Washington, D.C.: The Brookings Institution.

Rodrik, D. (2001) *The global governance of trade as if development really mattered*. Background paper for UNDP. Online at: http://www.wcfia.harvard.edu/sites/default/files/529_Rodrik5.pdf

Rodrik, D. (2003) Argentina: A Case of Globalisation Gone Too Far or Not Far Enough? In Teunissen, J. and Akkerman, A. (ed.) *The Crisis That Was Not Prevented Lessons for Argentina, the IMF, and Globalisation*. The Hague: FONDAD.

Rohwer, J. (1996) *Asia Rising*. London: Nicholas Brealey.

Romer, P. (1993) Idea gaps and object gaps in economic development. *Journal of Monetary Economics*, 32(1), pp. 543-73.

Rosen, E. (2002) *Making Sweatshops: The Globalization of the U.S. Apparel Industry*. Berkeley: University of California Press.

Sabine, M. (1993) *Corporate Finance: Flotations, Equity Issues and Acquisitions*, 2nd ed. London: Butterworths.

Sachs, J. (1985) External debt and macroeconomic performance in Latin American and East Asia. *Brooking Papers on Economic Activity*, 2, pp. 523-64.

Sachs, J. (1998a) The IMF and the Asian flu. *The American Prospect*, 37, pp. 16-21.

Sachs, J. (1998b) quoted in Bullard, N., Bello, W. and Mallhotra, K. (1998) Taming the tigers: the IMF and the Asian crisis. *Third World Quarterly*, 19(3), pp 505-55.

Sachs, J. (1999) *What Have We Learned, So Far, From the Asian Financial Crisis*. Online at: <http://www.cid.harvard.edu/archive/hiid/papers/aea122.pdf>

Sachs, J. and Woo, W.T. (2000) Understanding the Asian Financial Crisis. In Sachs, J., Woo, W.T. and Schwab, K. (ed.) *The Asian Financial Crisis: Lessons for a Resilient Asia*. Cambridge and London: MIT Press.

Sachs, J., Tornell, A. and Velasco, A. (1996) The Mexican Peso Crisis: Sudden Death or Death Foretold? *Journal of International Economics*, 31(3-4), pp. 265-83.

SACOM (2010) *SACOM Statement*. <http://sacom.hk/archives/647>

Saludo, R. and Shameen, A. (1997) *A question of openness*. Asia Week, 3 October, pp. 62-63.

Sanger, D. (1998) *IMF Now Admits Tactics in Indonesia Deepened the Crisis*. New York Times, January 14.

Sarel, M. (1997) *Growth and Productivity in ASEAN Countries*. IMF Working Paper WP/97/97.

Sarno, L. and Taylor, M.P. (2002) Purchasing Power Parity and the Real Exchange Rate. *IMF Staff Papers*, 49(1), pp. 65-105.

Schenk, C. (2007) The rise of Hong Kong and Tokyo as international financial centres after 1950. In Cottrell, P. L., Lange, E. and Olsson, U. (ed.) *Centres and Peripheries in Banking: the Historical Development of Financial Markets*. Aldershot: Ashgate.

Schott, J. (1996) *The world trading system: Challenges ahead*. Washington, D.C.: Institute for International Economics.

Schrage, E. (2004) *Promoting International Worker Rights through Private Voluntary Initiatives: Public Relations or Public Policy?* Online at: http://bollettinoadapt.unimore.it/allegati/07_8_27_DIRITTI_DEI_LAVORATORI.pdf

Shanghaiist (2009) Disney Sweatshops: Mickey Mouse is No Longer Cute. Online at: http://shanghaiist.com/2009/12/02/disney_sweatshops_mickey_mouse_is_n.php#

Sharma, S. (2003) *The Asian Financial Crisis: Crisis, Reform And Recovery*. Manchester: Manchester University Press.

Shaw, E. (1973) *Financial Deepening in Economic Development*. New York, Oxford University Press.

Shin, J. S. (2007) *Global Challenge and Local Response The East Asia Experience*. Abingdon: Routledge.

Shirk, S. (1996) Internationalization and China's economic reforms. In Keohane, R. and Milner, H. (ed.) *Internationalization and Domestic Politics*. Cambridge: Cambridge University Press.

Sibunruang, A. and Brimble, P. (1988) *The Employment Effects of Manufacturing Multinational Enterprises in Thailand*. International Labor Office Working Paper No. 54, Geneva: ILO.

Singh, A. (1994) Openness and Market Friendly Approach to Development: Learning the Right Lessons from Development Experience. *World Development*, 22(12), 1811-23.

Singh, A. (1998) Growth: its sources and consequences. In Thompson, G. (ed.) *Economic Dynamism in the Asia-Pacific: The Growth of Integration and Competitiveness*. London: Routledge.

Singh, A. and Zammit, A. (2006) Corporate governance, crony capitalism and economic crises: should the US business model replace the Asian way of "doing business"? *Corporate Governance: An International Review*, 14(4), pp. 220-33.

- Singh, H. (2005) Malaysia: growing foreign policy complexity and persistent state power. In Robertson, J. and East, M. (ed.) *Diplomacy and Developing Nations: Post-Cold War Foreign Policy-Making*. Abingdon: Routledge.
- Singh, K. and Yip, G. (2000) Strategic lessons from the Asian crisis. *Long Range Planning*, 33(5), pp. 706-729.
- Sklair, L. (2000) The transnational capitalist class and the discourse of globalization. *Cambridge Review of International Affairs*, 14(1), pp. 67-85.
- Sklair, L. (2001) *The Transnational Capitalist Class*. Oxford: Blackwell Publishing.
- Smith, A. (1970) *The Wealth of the Nations*. Harmondsworth: Penguin.
- Snowdon, B. (2002) *Conversations on Growth, Stability and Trade: an Historical Perspective*. Cheltenham: Edward Elgar Publishing.
- Soegijoko, B. and Kusbiantoro, B. (2001) Globalization and the sustainability of Jabotabek, Indonesia. In Lo, F. C. and Marcotullio, P. (ed.) *Globalization and the Sustainability of Cities in the Asia Pacific Region*. Tokyo: The United Nations University Press.
- Sohn, C. and Yang, J. (1998) *Korea's Economic Reform Measures under the IMF Program: Government Measures in the Critical First Six Months of the Korean Economic Crisis*. Korea Institute for International Economic Policy Paper 98-01. Seoul: Korea Institute for International Economic Policy.
- Solnik, B. and McLeavey, D. (2004) *International Investments, 5th ed.* New Jersey: Pearson Education.
- Song, J. (2006) Family Breakdown and Invisible Homeless Women: Neoliberal Governance during the Asian Debt Crisis in South Korea, 1997 – 2001. *Positions*, 14(1), pp. 37-66.
- Spero, J. and Hart, M. (2006) *The Politics of International Economic Relations, 7th ed.* Belmont: Thompson/Wadsworth.
- Steger, M. and Roy, R. (2010), *Neoliberalism: A Very Short Introduction*. Oxford: Oxford University Press.
- Stiglitz, J. (1999) Reforming the global economic architecture: lessons from recent crises. *Journal of Finance*, 54(4), pp. 1508-22.
- Stiglitz, J. (1998) *The Role of International Financial Institutions in the Current Global Economy*. Address to the Chicago Council on Foreign Relations. Chicago, February 27.
- Stiglitz, J. (2000) *The Insider: What I Learned at the World Economic Crisis*. The New

Republic April 17, 2000. Online at: <http://www.tnr.com/article/politics/the-insider>

Stiglitz, J. (2001) From miracle to crisis to recovery: lessons from four decades of East Asian experience. In Stiglitz, J. and Yusuf, S. (ed.) *Rethinking the East Asian miracle*. New York, Oxford University Press for World Bank.

Stiglitz, J. (2002) *Globalization and its Discontents*. London: Penguin books.

Stiglitz, J. (2004) Globalism's Discontents. In Lechner, F. and Boli, J. (ed.) *The Globalization Reader*. Oxford: Balckwell Publishing.

Stiglitz, J. (2006) *Making Globalization Work*. London: W.W. Norton & Co.

Stiglitz, J., Ocampo, J.A., Spiegel, S., Ffrench-Davis, R. and Nayyar, D. (2006) *Stability with Growth: Macroeconomics, Liberalization and Development*. Oxford: Oxford University Press.

Stoler, A. (1985) *Capitalism and Confrontation in Sumatra's Plantation Belt, 1870-1979*. New Haven: Yale University Press.

Strom, S. (1998) *Labor Cutbacks Pose Problem for South Korean Economic Recovery*. New York Times, 24 February.

Sufian, F. (2004) The Efficiency Effects of Bank Mergers and Acquisitions in a Developing Economy: Evidence from Malaysia. *International Journal of Applied Econometrics and Quantitative Studies*, 1(4), pp. 53-74.

Summers, L.H. (1998b) International Financial Crisis: Causes, Prevention and Cures. *American Economics Review Papers and Proceedings*, 90(2), pp. 1-16.

Sundaram, J. (2009) Causes of the 1997-1998 East Asian crisis and obstacles to implementing lessons. In Carney, R. (ed.) *Lessons from the Asian financial crisis*. Abingdon and New York: Routledge.

Swaine, M. (2006) Understanding the historical record. In Swaine, M., Zhang, T. and Cohen, D. (ed.) *Managing Sino-American Crises: Case Studies and Analysis*. Washington, D.C.: Carnegie Endowment for International Peace.

Swenson, D (1994) The Impact of U.S Tax Reform on Foreign Direct Investment in the United States. *Journal of Public Economics*, 54(2), pp. 243-66.

Takagi, S. (2009) Managing economic crises: what did the IMF learn from Asia? *The Journal of Social Science*, 68, pp. 115-31.

Tan, G. (2000) *The Asian Currency Crisis*. Singapore: Times Academic Press.

Tarling, N. (2001) *Imperialism in Southeast Asia: A Fleeting Passing Phase*. London: Routledge.

Taylor, A.M. and Taylor, M.P. (2004) The purchasing power parity debate. *Journal of Economic Perspectives*, 18(4), pp. 135-58.

Thacher, N., Crowe, C., Morales, R., Chandra, S., Mati, A. and Seelig, S. (2007) *Indonesia: Selected Issues*. IMF Country Report No. 07/273.

The Financial Times (2010) *Foxconn seeks suicide answers*. Online at: <http://www.ft.com/cms/s/2/8a638d40-6698-11df-aeb1-00144feab49a.html>

The Japan Times (1999) *Thai protesters target foreign investors*. May 16, 1999.

The Wall Street Journal (2010) *Hon Hai Gives Details on Planned Pay Raise*. Online at: <http://online.wsj.com/article/SB10001424052748704726104575290580120387658.html>

Thiam, H. N. (2006) *Foreign Direct Investment and Productivity: Evidence from the East Asian Economies*. UNIDO Staff Working Paper 03/2006.

Thompson, G. (1998) Financial systems and monetary integration. In Thompson, G. (ed.) *Economic Dynamism in the Asia-Pacific: The Growth of Integration and Competitiveness*. London: Routledge.

Thomsen, S. (1999) *Southeast Asia: The Role of Foreign Direct Investment Policies in Development*. OECD: Working papers on international investment.

Timmer, M.P. and Szirmai, A. (1997) *Growth and Divergence in Manufacturing Performance in South and East Asia*. Papers 37, Groningen State, Institute of Economic Research.

Tipton, F. (1998) *The Rise of Asia: Economy, Society, and Politics in Contemporary Asia*. London: Macmillan.

Todaro, M. and Smith, S. (2009) *Economic Development, 10th ed*. Essex: Pearson Education Limited.

Tomohara, A. and Yokota, K. (2007) Foreign Direct Investment and Wage Inequality: Is Skill Upgrading the Culprit? Online at: <http://www.icsead.or.jp/7publication/workingpp/wp2007/2007-14.pdf>

Tse, R. (2000) China: a real estate boom in a protected transition economy. In Mera, K. and Renaud, B. (ed.) *Asia's Financial Crisis and the Role of Real Estate*. New York: M.E. Sharpe.

Tu, W.M. (1989) The Confucian Dimension in the East Asian Development Model. In Chung-Hua Institute for Economic Research (ed.) *Conference on Confucianism and Economic Development in East Asia*. Taipei: Chung-Hua Institute for Economic Research.

- Turnbull, S. (1997) Stakeholder co-operation. *Journal of Co-operative Studies*, 29(3), pp. 18-52.
- UNCTAD (1992) *World Investment Report 1992*. New York: United Nations.
- UNCTAD (1993) *World Investment Report 1993*. New York: United Nations.
- UNCTAD (1994) *World investment report 1994: Transnational corporations, employment and the workplace*. New York: United Nations.
- UNCTAD (1996) *World Investment Report 1996*. New York: United Nations.
- UNCTAD (1997a) *Industrial Development Global Report 1997*. Oxford: Oxford University Press.
- UNCTAD (1997b) *Trade and Development Report 1997*. New York and Geneva: UNCTAD.
- UNCTAD (1998a) *The Financial Crisis in Asia and Foreign Direct Investment: An Assessment*. Geneva: UNCTAD.
- UNCTAD (1998b) *World Investment Report: Trends and Determinants*. New York and Geneva: United Nations.
- UNCTAD (1999a) *Trade and Development Report 1999*. Geneva: UNCTAD.
- UNCTAD (1999b) *World Investment Report: Foreign Direct Investment and the Challenge of Development*. New York and Geneva: United Nations.
- UNCTAD (2000a) *World Investment Report: Cross-border Mergers and Acquisitions and Development*. New York and Geneva: United Nations.
- UNCTAD (2000b) *World Commodity Survey 1990-2000*. New York and Geneva: United Nations.
- UNCTAD (2004) *Commodity Atlas*. Geneva: UNCTAD.
- UNCTAD (2007) *World Investment Report: Transnational Corporations, Extractive Industries and Development*. Geneva: UNCTAD.
- Underhill, G. and Zhang, X.K (2005) The state-market condominium approach. In Boyd, R. and Ngo, T.W. (ed.) *Asian States: Beyond the Developmental Perspective*. London: RoutledgeCurzon.
- UNESCAP (2001) *Export Competitiveness and Sustained Economic Recovery*. Studies in Trade and Investment No. 46. New York: United Nations Economic and Social Commission for Asia and the Pacific.

UNESCAP (2002) *Asia-Pacific Economies: Sustaining Growth Amidst Uncertainties, Bulletin on Asia-Pacific Perspectives 2002/03*. New York: The United Nations Economic and Social Commission for Asia and the Pacific.

Ungpakorn, J. G. (1999) *Thailand: Class Struggle in an Era of Economic Crisis*. Bangkok: Workers Democracy Book Club.

UNIDO (1982) *Asian Industry in Figures: A Statistical Profile of Key Sectors in Selected Escap Countries*. New York: UNIDO

UNIDO (1985) *Industry in the 1980s: Structural Change and Interdependence*. New York: UNIDO.

US Congress (1998) *Congressional Record*, Volume 144, Part. 13, July 31, 1998 to September 8, 1998, Page 18327 to 19630. Washington, D.C.: U.S. Government Printing Office.

Velde, D. and Morrissey, O. (2002) *Foreign Direct Investment. Who Gains?* ODI Briefing Paper May 2002. Online at: <http://www.odi.org.uk/events/2002/03/26/2091-handout-draft-briefing-paper.pdf>

Velde, D. and Morrissey, O. (2004) Foreign direct investment, skills and wage inequality in East Asia. *Journal of the Asia Pacific Economy*, 9 (3), pp. 348-369.

Verbruggen, H. (1987) Gains from export-oriented industrialization – with special reference to South-East Asian. In Dijk, P., Linnemann, H. and Verbruggen, H.(ed.) *Export-oriented Industrialization in Developing Countries*. Singapore: Singapore University Press.

Vodovnik, Z. (2004) *Ya Basta: Ten Years of the Zapatista Uprising*. Oakland, CA: AK Press.

Wade, R. (1988) State Intervention in Outward-looking Development: Neoclassical theory and Taiwanese Practice in White, G. (ed.) *Development States in East Asia*. London: Macmillan.

Wade, R. (1990) *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton: Princeton University Press.

Wade, R. (1994) Selective industrial policies in East Asia: Is the East Asian Miracle right? In Fishlow, A., Gewin, C., Rodrik, D. and Wade, R. (ed.) *Miracle or Design: Lessons from the East Asian Experience*. Washington, D.C. Overseas Development Council.

Wade, R. (1996) Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective, *New Left Review*, 217, pp. 3-36.

- Wade, R. (1998) From “miracle” to “cronyism”: explaining the great Asian slump. *Cambridge Journal of Economics*, 22(6), pp. 693-706.
- Wade, R. (2000) Wheels within wheels: rethinking the Asian crisis and the Asian model. *Annual Review of Political Science*, 3, pp. 85-115.
- Wade, R. and Veneroso, F. (1998) The Asian crisis: the high debt model versus the Wall-Street- Treasury-IMF complex. *New Left Review*, 228, pp.3-23.
- Walliman, N. (2006) *Social Research Methods*. London: Sage.
- Weiss, Linda and Hobson, John M. (1995) *States and Economic Development: A*
- White, G. (1988) *Developmental States in East Asia*. London: Macmillan.
- Winters, J. (1996) *Power in Motion: Capital Mobility and the Indonesian State*. New York: Cornell University Press.
- Winters, J. (1998) The financial crisis in Southeast Asia. *The Brown Journal of World Affairs*, 5(1), pp. 89-112.
- Wolf, M. (2005) *Why Globalization Works*. New Haven and London: Yale University Press.
- Wong, J. and Liu, Z.Q. (2002) Education and development: experiences from East Asia. In Wong, J. and Ding, L. (ed.) *China's Economy into the New Century: Structural Issues and Problems*. Singapore: Singapore University Press and World Scientific.
- Wong, L. (2005) Corporate governance in China: A reflexive critical approach. In: Lehmann, C. (ed.) *Advances in public interest accounting volume 11*. Amsterdam: Elsevier.
- Wong, L. (2008) Culture and corporate governance: revisiting the cultural imperative. In Aras, G. and Crowther, D. (ed.) *Culture and Corporate Governance*. Leicester: Social Responsibility Research Network.
- Woo, L. (2002) The Financial Crisis and Economic Inequality in Korea. *Korean journal*, 42(1), pp.178-203.
- Woo, W. T. (2000) The Asian Financial Crisis: Hindsight, Insight, Foresight. *ASEAN Economic Bulletin*, 17(2), p. 113-19.
- Woo-Cumings, M. (1999). *The Developmental State*. Ithaca: Cornell University Press.
- Woo-Cumings, M. (2000) *Economic Crisis and Corporate Reform in East Asia*. Report Paper, Council on Foreign Relations New York.
- Woo-Cumings, M. (2001) Miracle as prologue: the state and the reform of the corporate

sector in Korea. In Stiglitz, J. and Yusuf, S. (ed.) *Rethinking the East Asian miracle*. New York, Oxford University Press for World Bank.

Woo-Cumings, M. (2003) *South Korean Anti-Americanism*. JPRI Working Paper No. 93. Online at: <http://www.jpri.org/publications/workingpapers/wp93.html>.

Wood, A. (1995) *North–South Trade, Employment and Inequality*. Oxford: Clarendon Press.

Wood, A. (1997) Openness and wage inequality in developing countries: the Latin American challenge to East Asian conventional wisdom. *World Bank Economic Review*, 11, pp. 33-57.

World Bank (1983) *World Development Report 1983*. New York: Oxford University Press

World Bank (1985) *World Development Report 1985*. New York: Oxford University Press

World Bank (1987) *World Development Report 1987*. New York: Oxford University Press

World Bank (1991) *World Development Report 1991: The Challenge of Development*. New York: Oxford University Press

World Bank (1993) *The East Asian Miracle: Economic Growth and Public Policy*. New York: Oxford University Press.

World Bank (1998) *East Asia: The Road to Recovery*. Washington, D.C.: The World Bank.

World Bank (1999a) *Global Economic Prospects and the Developing Countries 1998/99: Beyond Financial Crises*. Washington, D.C.: The World Bank.

World Bank (1999b) *World Development Indicators 1999*. Washington, D.C.: The World Bank.

World Bank (2000a) *Global Economic Prospects and the Developing Countries*. Washington, D.C.: the World Bank.

World Bank (2000b) *Global Development Finance 2000*. Washington, D.C.: World Bank.

World Bank (2000c) *World Development Report 1999/2000: Entering the 21st Century*. New York: Oxford University Press for the World Bank.

Yang, S.C. (1994) Open industrialization in East Asia and the quest for regional cooperation: an overview. In Yang, S.C. (ed.) *Manufactured Exports of East Asian Industrializing Economies: Possible Regional Cooperation*. New York: M.E. Sharpe.

Yang, Y.H. (1998) Monetary policy and capital flows in Taiwan during the 1980s and 1990s. In Kwan, C.H., Vandenbrink, D. and Yue, C.S. (ed.) *Coping with Capital Flow in*

East Asia. Singapore: Institute of Southeast Asian Studies.

Yellen, J. (2007) Lessons of the Asian Crisis 10 Years Later. *New Perspectives Quarterly*, 24(2), pp. 40-44.

Yin, K. (1960) *Economic Development in Taiwan 1950-1960: Record and Prospects*. Taipei: Council for United States.

Yoshitomi, M. and ADBI Staff (2003) *Post-Crisis Development Paradigms in Asia*. Tokyo: Asian Development Bank Institute.

Yu, S. (1996) quoted in Woo-Cumings, M. (1999) The state, democracy, and the reform of the corporate sector in Korea. In Pempel, T.J. (ed.) *The Politics of the Asian Economic Crisis*. Ithaca: Cornell University Press.

Yu, T.S. (2001) An overview of the financial crisis in East Asia. In Yu, Z., Yu, T. S. and Xu, D. (ed.) *From crisis to recovery: East Asia rising again?* Singapore: World Scientific Publishing.

Yun, M. (2000) quoted in Cherry, J. (2007) *Foreign Direct Investment in Post-crisis Korea: European Investors and "Mismatched Globalization"*. Abingdon: Routledge.

Yusuf, S. and Evenett, S. (2002) *Can East Asia Compete? Innovation for Global Markets*. Washington, D.C.: World Bank.

Zarsky, L. (2002) Beyond good deeds: for multinational corporations to adopt socially responsible practices, voluntary measures are not enough. *Forum for Applied Research and Public Policy*, 16(4), pp.14-23.

Zhang, K. (2006) (ed.) *China as the World Factory*. Abingdon: Routledge.