

East Asia's Structural Change from NIEs to Potentially Bigger Market
Economies (PBM) and Regional Cooperation:
Implications for a Small Economy ⁽¹⁾

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Introduction

The global financial crisis, which originated from the US subprime loan problem, has brought to light how dangerous and selfish, as well as lacking in morality was the liberal globalism being strongly pushed by the US. It is, as the first African-American President Barack Obama in his inaugural address in 2009 put it, with a touch of criticism, “the consequence of greed and irresponsibility on the part of some.” It could be said that the world has entered an era of searching for a new world economic order, which would attempt to control the market, in lieu of an era of market fundamentalism, which puts the highest priority on markets. This will surely move the international society towards a more equitable social order through a literally repetitive process of trial and error. In this so-called transition period in the global economic order, the question is: What international as well as regional order will East Asia aim for, having sustained a development as the world's growth center particularly in the last several decades, and having attained a political and economic power that now cannot be ignored?

Come to think about it, East Asian countries, the region or its people, while obtaining growth through the globalization of the world economy, have learned a lot of lesson about the dangers of globalization. During this period, East Asia was able to achieve through exports of manufactured goods, dramatic reduction of poverty, and elevating the economic structure. On the other hand, the region fell into the Asian financial crisis in the second half of the 1990s, and was exposed to the severe systemic risks accompanying financial and exchange rate liberalization. Having experienced success and failure, East Asia, faced with the global financial crisis originating from the

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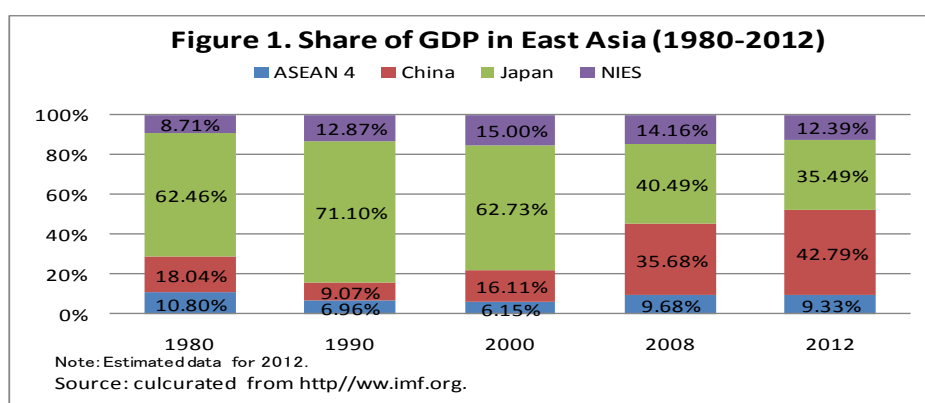
US, has to carry out its responsibility in the creation of the new economic order.

This paper aims to consider the issues faced by and the circumstances of East Asia and to search for new directions to study what should be the regional framework of East Asia. Finally, the implications of the growing importance of potentially bigger market economies (PBM) for CLMV will be discussed.

[1] Asian Development and the Shift in the Structure of the Global Economy

(1) The Structural Changes in the East Asian Economy

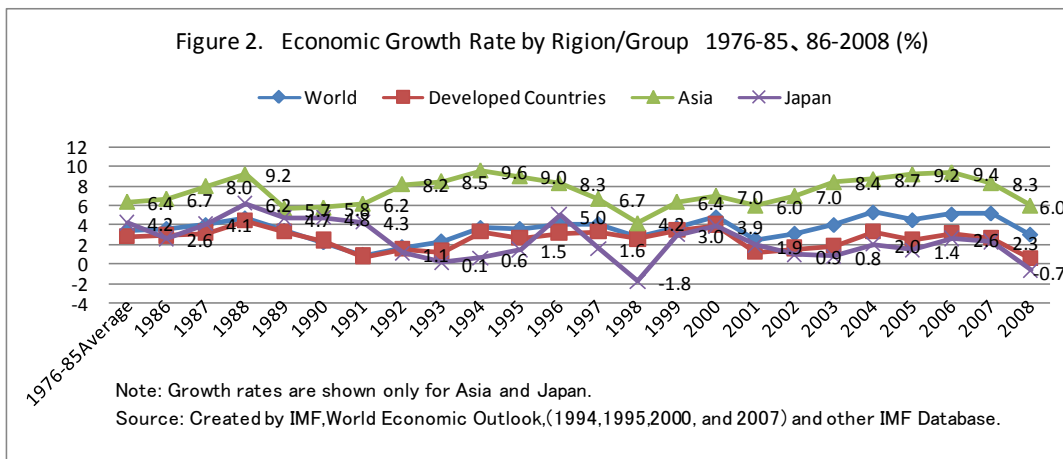
Since the past several dozen years, East Asia has been undergoing significant changes in its economic composition as a region and by country. Figure 1 shows the GDP composition of the region consisting of Japan, NIES (Newly-Industrialized Economies), ASEAN4 (Association of Southeast Asian Nations) countries ⁽²⁾, and China. In this figure, CLMV's GDP has not been included in calculating the regional GDP composition, only because of their small sizes. Anyway, it could be seen that Japan in 1990 had an overwhelming economic power with a share of more than 70%. This became 40.5% in 2008, dropping by about 31 percentage points in about 20 years. In contrast, during this period, NIES' share varied between a low of 12.9% to a high of 14.2%; ASEAN4 share ranged from 7.0% to 9.7%; and especially noteworthy was China whose share grew 4 times from 9.1% to 35.7%. If we add Hong Kong's GDP (same share 1.8% in 1990 and 2008) to this, China's share would further expand. In the near future, the position of Japan and China would undoubtedly be reversed. As far as could be seen from the GDP composition, the era of Japan being the only overwhelming economic power in this region has certainly passed.



Notwithstanding the phenomenon of only China having an expanding GDP share in East Asia, the other economies have been continuously sustaining a growth

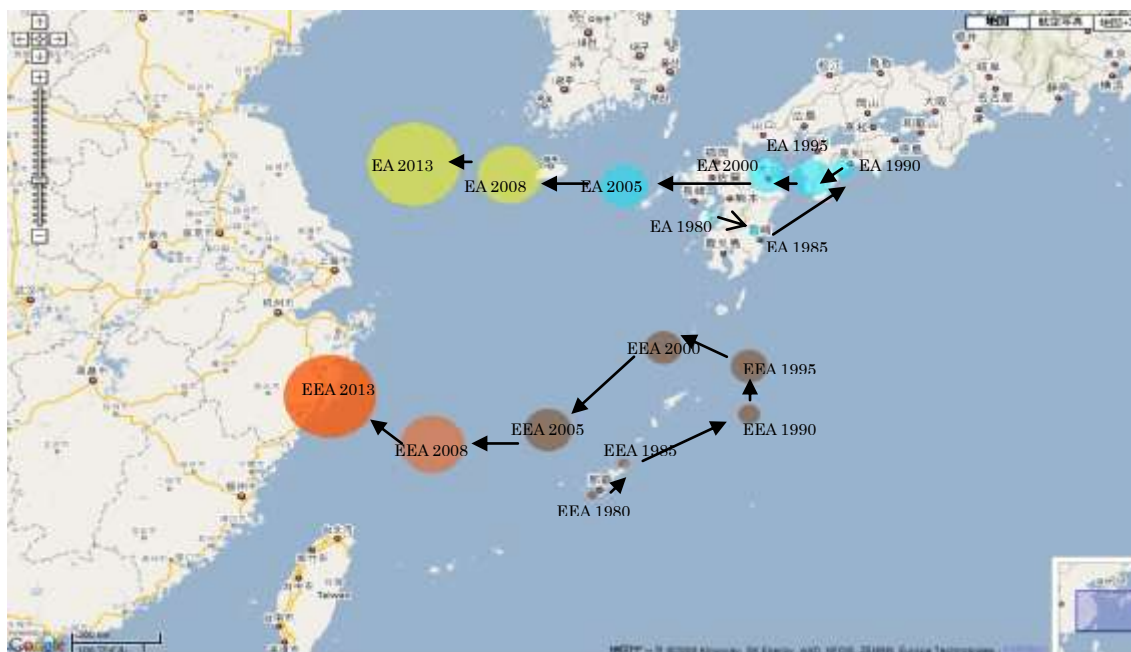
² ASEAN 4 consists of Indonesia, Malaysia, Philippines and Thailand, and CLMV of Cambodia, Laos, Myanmar and Vietnam. NIES includes Hong Kong (China), Singapore, South Korea and Taiwan (China).

that exceeded that of Japan. The economic growth of the developing regions of East Asia started with the development of the NIES since the second half of the 1960s, and since then the Asian region, excluding Japan, has maintained the record of having the highest growth rate in the world. This is confirmed in Figure 2, from the second half of the '70s. Asia, which excludes Japan, has already surpassed Japan. This fact has brought about the structural change in East Asia.



Let us examine the structural change of the region from another viewpoint by looking at the movement since the 1980s of the equilibrium point or center of gravity of GDP of East Asian countries/regions, taking this as the weight of each country. Figure 3 is such a graph and shows the movement of two types of center of gravity: East Asia (EA) and Expanded East Asia (EEA), which adds Australia, New Zealand, and India to East Asia. From this figure, we can see that the center of gravity, which was in Kyushu in the 1980s, was moving towards Shikoku Island, and being pulled towards Tokyo by the bubble economy era, but upon entering this century it has been heading towards the Chinese continent on a largely straight line through the East China Sea. As for the EEA, its center of gravity is at a latitude below Shanghai, was in the vicinity of Okinawa in the 1980s, but is heading towards China over the East China Sea after moving south up to Kagoshima in the 1990s. The track of this center of gravity could have been pulled south during 2000 to '05 due to the effect of Australia and the development of India. It's turning northward again in 2013 because of the forecasted growth of China whose center of gravity is positioned in Beijing.

Figure 3. The Movement of the East Asia GDP Center of Gravity/Equilibrium Point (1980-2013)



Note 1) The determination of the geometric equilibrium point was computed based on the latitude and longitude of the capital of each country or economy, weighted by its respective GDP.

Note 2) The member countries/regions of EA are Brunei, Cambodia, China, Hong Kong, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, the Philippines, Singapore, Taiwan, and Vietnam. EEA is EA plus Australia, New Zealand, and India. However, 1980 does not include Brunei and Cambodia and 1985 does not include Brunei.

Note 3) 2008 and 2013 are IMF estimates

Source: Constructed from IMF, *World Economic Outlook Database*, Oct. 2008

Incidentally, even though the global financial crisis that originated in the US since the fall of 2008 had in the short term severe wide and deep effect on East Asian economies, it seems that there would be no big changes in the fundamental tendency of the China-led growth.

Nevertheless, how did East Asia accomplish its development? We shall look into this in the next section.

(2) The Development of NIES and the Asia-Pacific Triangle

The economic growth of East Asia, not including Japan, started with the development of the NIES since the second half of the 1960s. NIES here refer to South

Korea, Taiwan, Hong Kong, and Singapore, but it is an economic group that attracted attention as “NICs” (Newly Industrializing Countries) through the report published in 1979 by the OECD (Organisation for Economic Co-operation and Development). The OECD called as NICs a total of 10 countries/regions consisting of the Asian NIES with the addition of Latin America’s Brazil and Mexico, and Europe’s Greece, Portugal, Spain, and the former Yugoslavia. These country/region groups have actually been performing remarkably in terms of manufactured product exports since the second half of the ‘60s, rapidly expanding their share in global trade. The destination of their exports was mainly the US.

Firstly, comparing the global manufactured goods export by country or regional composition in 1963 and 1976, the NIES had been greatly increasing their shares: South Korea 0.05%→1.20%、Taiwan 0.16%→1.23%、Hong Kong 0.76%→1.15%、and Singapore 0.38%→0.52%. The share of the Asian NIES in OECD country manufactured product imports, for the same period increased to about four times from 1.2% to 4.7%.

(OECD1979 : 19,23) The shares in exports to the US from the NIES in ‘65, were generally high: South Korea 47.3%, Taiwan 38.1%, Hong Kong 52.7%, and Singapore 11.1%. (Hirakawa 1992:44) Moreover, the NIES share in the US imports of manufactured goods had been rapidly increasing from 0.1%→7.9%. This share further expanded in 1977 to 9.6%, and exports to the US have been accelerating since (OECD 1979: 72).

Next, comparing the ratio of manufactured products in Asia NIES export in 1965 and ‘73, we can see that, with the exception of Hong Kong, this had been growing during this period: Hong Kong 93.4%→96.7%、South Korea 61.0%→84.2%、Taiwan 42.5%→83.9%、and Singapore 31.1%→44.7%. The manufactured product ratios reached 90% in 1980 for South Korea and in 1984 for Taiwan. The reason for the low manufactured product ratio of Singapore is that petroleum products do not fall under the manufactured goods category. In general, the manufactured products export share had been rapidly increasing from 1960 up to second half 1970 (OECD 1988: 15).

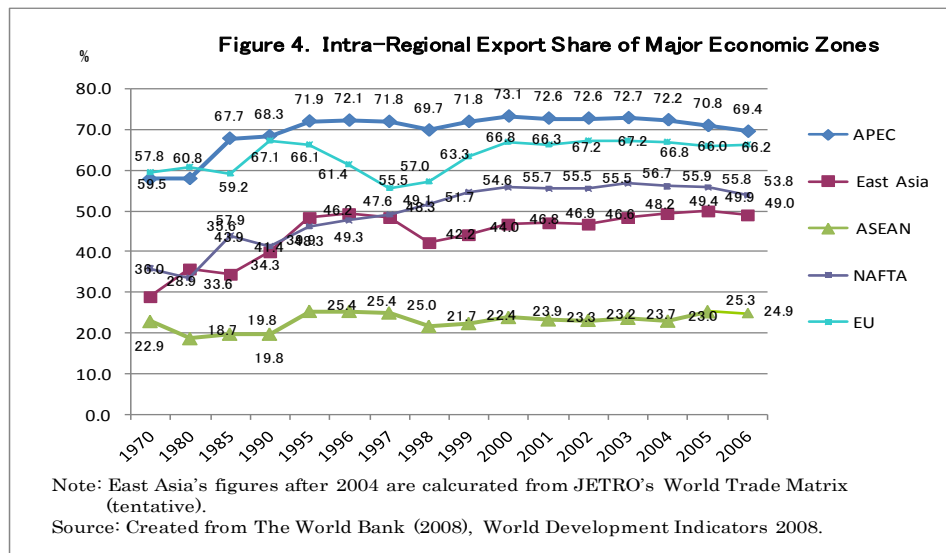
One more feature of NIES is an apparent tendency of making Japan the largest import point. As is well known, capital and raw materials are imported from Japan, and the assembled or processed goods are exported to the US. The NIES-centered advance of Japanese firms built such a structure.

This is the triangular structure of growth, and has recently shown some change, but has functioned as a fundamental development structure in East Asia.

(3) Progress of East Asia's Economic Integration

As confirmed in the previous section, the classic growth pattern in NIES expanded to ASEAN, with the strengthening of the yen due to the Plaza Accord of 1985, and then to China since '90. At the same time, the division of labor within the East Asian region had been improving, and the intra-regional trade ratio had been gradually but steadily rising. Kaname Akamatsu's Flying Geese Type Theory (Akamatsu 1965), in short, was manifested in the development of an export phase after passing through an import-substitution stage from an import stage. It was at this time that the world came to focus on the understanding that the industrial development of the latecomer Japan had expanded and diffused to East Asia (Comings 1984; Okita 1985)

The author has adopted a circumspect position on the direct application of the Flying Geese Type Theory to Asia (Hirakawa, 1998). In either case, as one of Japanese economists of Asian economy, Toshio Watanabe, at that time described the East Asia region, as a "continuous chain of structural shifts": from NIES East Asia becoming one economic unit to include ASEAN and China, and has continued to be a growth pole of the world. This has made inevitable the publication of the famous World Bank's "East Asia Miracle" report, which created a new geographical concept of "East Asia" as including ASEAN. Incidentally, the geographical concept prior to this was that "East Asia", in general, referred to Japan, China, and South Korea.



As the intra-regional export ratios of major economic zones in Figure 4 show, the East Asia region's intra-regional trade ratio broke the 30% level in 1970. This showed an increase in the 1970's and second half of the '80s, and in '97 rose to nearly

50%, at 48.3%. Although it declined later due to the Asian financial crisis, it recovered once again to the 49% level. Including imports, the trade ratio already greatly exceeds 50%. The East Asia region's intra-regional ratio is lower than the more or less 60% level maintained by the EU, but the total intra-regional trade ratio of East Asia already surpasses the level of NAFTA, and the possibility is strong that this will further increase, when we consider the trend of intra-regional trade and structural development.

What are the features of the expansion of intra-regional trade of East Asia? One feature in the increase up to 1990 is the absence of an accompanying regional institutionalization, as indicated often by the term "de facto integration". The current of regionalism started with the establishment of the EEC (European Economic Community) in 1958, began to make significant advances in the second half of the 1980s, towards the achievement of the EU (European Union) in 1993. Even in the North American continent, the NAFTA (North American Free Trade Agreement) was born. Either of these two groupings was an institutional integration, in contrast to which East Asia did not actually have any institutional backing.

However, it is not that the East Asian integration did not have any institution. At the start of 1993, in ASEAN, the AFTA (ASEAN Free Trade Area) was initiated, using the "Common Effective Preferential Tariff (CEPT)", which would lower tariffs to 0 or up to 5% within 15 years. In the following year, the period was shortened to 10 years, but the effect on ASEAN intra-regional trade was limited. As shown in Figure 4, the ASEAN intra-regional export ratio increased, but gradually.

It was the increase in trade, which made China the largest "magnetic field", that paved the way for the increase in intra-regional trade in East Asia (Aoki 2006:203). The return to the international economy through the opening up reform policy of China starting from December 1978 rapidly transformed China into a major export country of the world, and at the same time increased the trade with East Asian countries. Checking this by using JETRO's world trade matrix, the share of China in the total world export value in 1980 was merely 1.0%. China's largest export destinations in that year were Hong Kong with 24.0%, Japan with 22.2%, EU25 with 14.8%, and the US with 5.4%. East Asia's export share, excluding Hong Kong and Japan, would be merely 6.6%. But, this would significantly change thereafter. Looking at the recent figures for 2007, the share of China in the world total exports rose to 8.9%, and the destination of China's exports are Hong Kong at 15.2%, Japan at 8.3%, EU27 at 20.2%, US at 19.5%, East Asia, not including Hong Kong and Japan, at 13.1%. In short, this shows China's great advance as an export country, and the significant reduction of its export

dependence on Japan in contrast with the expansion of export dependence on the US and EU, as well as a steady increase of dependence on East Asia.

So how has the trade of East Asian countries/regions with China changed? Looking at the changes compared to 2007, the export structure of the NIES in 1980 was: US at 24.8%, Japan at 10.1%, Asian NIES at 9.1%, ASEAN at 10.6%, and China at a mere 2.0%. In 2007 the 1980 percentage for the US was halved to 11.6% and Japan to 5.8%, while that for ASEAN increased to 11.5%. Notably, the trade with China significantly increased to 27.0%. The dependence on China has deepened. With respect to ASEAN11, for the same period, the degree of dependence on China increased 14-fold from 0.8% to 11.6%. In contrast, the degree of dependence on Japan has decreased 22 percentage points from 34.5% to 12.5% (JETRO World Trade Matrix).

The above East Asian trade structure could be summarized thus: While China has expanded its trade with the US, EU, and East Asian region, the other East Asian countries have decreased their trade with the US and Japan, and increased their trade with China. This shows for certain the drop in the degree of dependence on Japan.

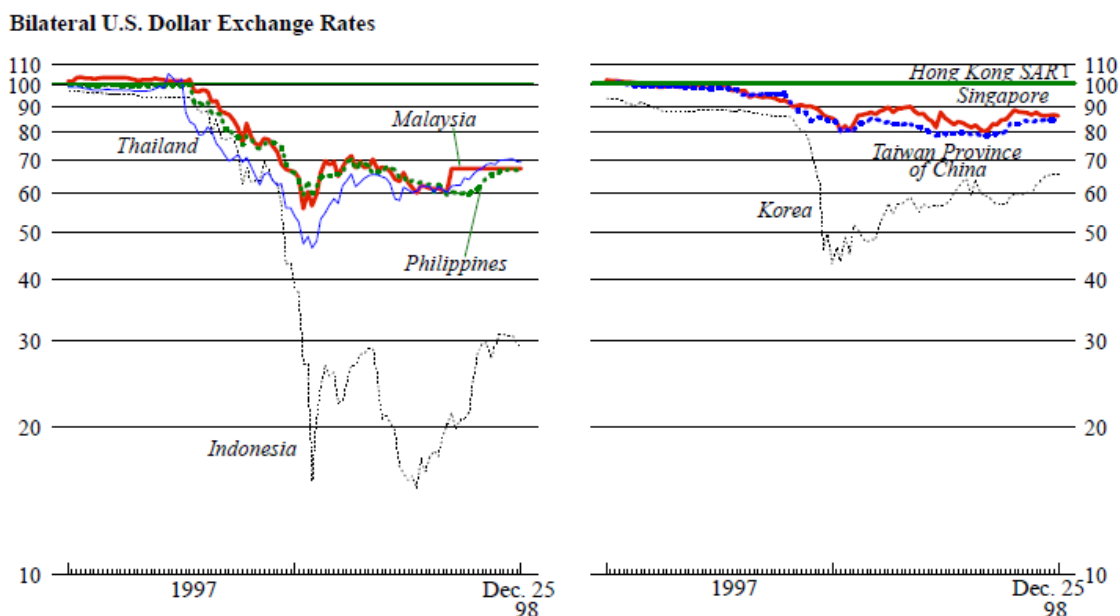
[2] Globalization and East Asia

(1) Globalization and Risk Management

It was after the currency crisis that the call was made for the institutionalization of the regional economic integration in East Asia. The currency/financial crisis erupted in July 1997, triggered by the sudden reversal of financial flows from countries, particularly Thailand, into which there was a large inflow of short term capital in the first half of the 1990s. At this time, the currencies of the all countries in East Asia dramatically dropped (Figure 5), plunging the domestic economy into chaos. Thailand, Indonesia, and South Korea were forced to accept IMF conditionalities (policy prescriptions) in order to obtain emergency funding. Many banks went under, and large numbers of unemployed were thrown into the market. Stock prices in Thailand, South Korea, and Indonesia were below 1/5 of pre-crisis levels. There was a change of administration in Indonesia. Ultimately, as would be seen below, East Asian countries, which could not rely on the international institutions and the US, began to open their eyes to the significance of regional cooperation.

Figure 5. East Asia's U.S. Dollar Exchange Rates 1997-98

(In U.S. dollars per currency unit; logarithmic scale; January 5, 1996 = 100)



Source: cited from IMF (1998) IMF's Response to Asian Crisis, Fig. 1.

Actually, the US and IMF construed the causes of the crisis to be found in the weakness of the financial system of East Asian countries, policy failures, and the fault of organizations/institutions, and emphasized the so-called “Washington Consensus”, which takes the market function as a panacea. The East Asian countries could not rely on the existing international institutions and the US, which had taken such a hard-nosed viewpoint towards the crisis. However, in 1998 the crisis spread to Russia, Brazil, and then to the US, pushing the famous hedge fund LTCM into bankruptcy, and finally bringing about an acceptance of the assertion that the Asian crisis is an institutional crisis brought about by globalization.

Japan crafted the Asian Monetary Fund (AMF) initiative in 1997, which was transformed into the New Miyazawa Initiative in the following year of 1998 when it met with resistance from and was frustrated by the IMF and the US. This was a proposal for a financial framework having a total worth of 30 billion dollar [equivalent yen] to be provided to the crisis-stricken countries. The opportunity for cooperation appeared in the form of the currency swap cooperation by the ASEAN+3 countries, in short, the Chang Mai Initiative. Incidentally, the CMI is an expanded version of the ASEAN currency swap agreement made in 1977. The maximum amount for the ASEAN

currency swap agreement was 100 million dollars. The total amount of emergency financing to Thailand in August 1997 reached as high as 17.2 billion dollars. The Asian currency crisis indicated the absolute limitation of ASEAN's own system.

(2) The Institutionalization of East Asian Regional Cooperation

In the 30th Annual ASEAN summit meeting held in Kuala Lumpur in December 1997 amidst the Asian currency crisis, the heads of Japan, China, and South Korea were invited, at which time the ASEAN + 3 summit meeting was in fact realized. At this first ASEAN + 3 summit meeting [since the start of the crisis] it was but natural for the Asian currency crisis to be included in the agenda. In the second ASEAN + 3 summit meeting convened in December of the following year in Hanoi, an agreement was reached to regularly hold such summit meetings. The ASEAN + 3 summit meetings up to 2008 numbered 11.

The 3rd summit meeting in 1999 issued the "Joint Statement on East Asia Cooperation", and the 11th meeting of October 2007 adopted the "Second Joint Statement on East Asia Cooperation". The Second Declaration confirmed the expansion and deepening of cooperation in 20 areas for the past 10 years, and, in addition, pledged the support of ASEAN integration towards the construction of an East Asian community and the realization of an ASEAN Community. Moreover, it advocated the following as areas of cooperation to be pushed in the future: (a) political and security cooperation, (b) economic/financial cooperation, (c) cooperation in energy/environment/climate change, and sustainable development, (d) social culture/development cooperation, and (e) institutional support and cooperation having a wider cooperation framework.

However, the common regional objective of having an "East Asian Community" was set in the "Towards an East Asian Community" report submitted in the 5th summit meeting by the East Asia Vision Group (EAVG), the establishment of which was agreed upon in 1998 (EAVG 2001). It was the recommendation in the final report of the East Asia Study Group (EASG), established by agreement in the summit meeting of 2000, that set common objectives of East Asian economic integration and holding of "East Asian summit meetings" (EASG 2002). Although the position was different from what it was at the start, the East Asian summit meeting was realized in November 2005.

The progress of the movement for East Asia regional integration which was advanced with ASEAN as a pivotal axis (Hirakawa 2008), with Japan, China, and South Korea cooperation relations was lagging far behind, but recently progress could finally be seen. The Japan-China-South Korea summit meetings, which began as dinner

meetings on the occasion of the ASEAN + 3 summit meetings since 1999, were called off in 2005 and 2006 due to the controversial visits to the Yasukuni Shrine by then Prime Minister Junichiro Koizumi, but were resumed later.

The ASEAN + 3 summit meeting scheduled for the middle of December 2008, in Chang Mai was set aside due to the political unrest in Thailand. Instead, a Japan-China-South Korea summit meeting was held in Fukuoka, with Japanese Prime Minister Taro Aso, Chinese Premier Wen Jiabao, and South Korean President Lee Myung-bak attending. This was the first time in history that such a summit meeting was held independently. An agreement was reached to regularly hold such summit meetings from hereon by taking hosting turns. In the common declaration, it was decided to promote cooperation oriented towards the future and based on the principles of “openness, transparency, mutual trust, common interest, and respect for cultural diversity”. The common declaration was made relative to the “international finance and economy” in order to deal with “trilateral partnership”, “trilateral disaster cooperation”, as well as the current financial crisis.

The ASEAN + 3 summit meetings, the East Asia summit meetings, and the Japan-China-South Korea summit meetings, as of now, do not have any particular financial backing. However, regular summit meetings, foreign ministers meetings, finance ministers meetings, and regular cooperation frameworks for diverse areas have been agreed upon. Opportunities have emerged for dealing as a region with the current US-made international financial crisis.

(3) Economic Integration in East Asia and FTA/EPA

The institutionalization of the economic integration in East Asia, since the start of this century, has been proceeding rapidly. East Asian countries, following the regionalism movement that occurred in Europe and the US in the second half of the 1980s, steered widely towards the signing of Free Trade Agreements (FTA).

In the 1990s, FTAs, or EPAs, using an expression that the Japanese government likes, were nothing more than preferential trade agreements, but compared to present FTA were extremely very limited. The FTA development started with the agreement between Thailand and Laos in 1991 and followed by the ASEAN Free Trade Area (AFTA) in 1992. This development rapidly progressed upon entering this century, with the following agreements: January 2001 - Singapore and NZ (New Zealand); November 2002 - Japan-Singapore; July 2003 - Singapore-Australia, and ASEAN-China; September 2004 - Thailand-India; January 2005 - Thailand-Australia; July 2005 - Thailand-NZ; August 2005 - Singapore-India; March 2006 - Singapore-South

Korea; July 2006 - Japan-Malaysia; June 2007 - ASEAN-South Korea; November 2007 - Japan-Thailand; July 2008 - Japan-Indonesia, and Japan-Brunei; and December 2008 Japan-Philippines. The pattern of development is such that Singapore, Thailand, ASEAN and China took the lead, and Japan followed. According to the JETRO White Paper, as of 2007, the share in total FTA effective bilateral trade by the total intraregional trade value of ASEAN + 6, which adds NZ, Australia, and India to ASEAN + 3, reached 49.5% (JETRO 2008 : 46) .

Why did such a boom in FTA signing come about? Generally it could be pointed out that the agreements among the participating countries in the multilateral trade negotiations by the WTO (World Trade Organization) got into difficulty due to an increasing number of participating countries. As such, there was stagnation in the liberalization of goods and services trade through the WTO and this prompted the development of FTAs between two countries, and at times among several countries. With the coming into force of the various FTAs, there is a strong possibility that countries lagging behind in terms of their FTA policy would face a situation of discrimination in trade. This possibility would further accelerate the FTA boom. Consequently, the driving entity would be the countries or industries that would benefit from trade liberalization, followed, at the same time, by countries or firms that would seek to avoid the negative effects.

However, there is one more strand of economic cooperation in the advancement of FTA. Actually, the trigger of this current East Asian FTA boom was the proposal by South Korea under the currency crisis in 1998 for a joint research of the Japan-South Korea economic cooperation. This cooperation had promoted “trade, investment, and acceleration of technology transfer” as economic cooperation in the “East Asia Cooperation Joint Declaration” of the ASEAN + 3 summit meeting of 1999. One of the key recommendations for economic cooperation also made by the EAVG report “Towards an East Asian Community” of October 2001 was the “East Asia FTA”. According to the survey of opinions regarding Japan by the major six countries of ASEAN, which was subcontracted by the Ministry of Foreign Affairs to a Singaporean firm, 41% of the people surveyed had knowledge about the Japan-ASEAN FTA/EPA. Those who responded as being aware of the survey gave the following reasons as their expectations for the FTA phenomenon: “expansion of mutual trade and investment” and “promotion of economic structural reforms in ASEAN countries” (27% for both), followed by “strengthening of both sides transcending economic aspects” (22%), and “technology support from Japan” (19%). A large number of respondents from Indonesia, the Philippines, and Vietnam were for the “promotion of economic structural reforms in

ASEAN countries” and “technology support from Japan”. It could be seen that the expectations are high for structural reforms and technology transfer through FTA (<http://www.mofa.go.jp/mofaj/area/asean/yoron08.html>).

Ultimately, FTA in itself promotes market competition, and countries/industries/firms with inferior competitiveness have a strong possibility of falling into a difficult situation. Even though such competition pushes forward structural reforms, it would not necessarily promise affluence and stability in all regional societies. The economic integration of the region is strongly sought for, but a prudent and very careful consideration is needed so as not to widen the regional gaps.

[3] The Age of Regionalism

(1) Driving Factors for the Institutionalization of the East Asian Regional Cooperation

The ASEAN + 3 summit meetings since 1997 have been held, in principle, yearly, and since then have achieved, among others, the establishment of regular Cabinet ministers meetings in many fields. The summit meeting scheduled for 2008 was set aside due to the political instability in Thailand at that time. Instead the Japan-China-South Korea 3-country summit was held in Fukuoka, where it was agreed to hold this meeting regularly in the future.

Looking at the background for the institutionalization of integration from an economic perspective, the economies of East Asian countries have laid the foundations for the institutionalization of integration that expands beyond national borders. On the other hand, this is sought for by the spread of international division of labor in manufacturing. The globalization of finance has made possible the movement of short term capital that is highly liquid and has raised to extreme levels the systemic risks involved. As a matter of fact, this globalization of finance has resulted in the Asian currency crisis and the “once in a hundred year” current US-made international financial crisis, which has prompted international financial coordination and the institutionalization of regional cooperation. The ASEAN+3 summit meeting of 1998 made a decision to regularly meet amidst the currency crisis, and the Japan-China-South Korea summit meeting of 2008 materialized amidst the US-made international financial crisis. We would say that these were inevitable rather than coincidental. But, we could cite the need for a lot more regional cooperation.

Cross-border environmental problems such as atmospheric pollution and global warming and the occurrence of large-scale natural disasters have received a lot of attention. It is said that during the 20th century the earth’s temperature increased by

0.7 degree. The consequences of not taking counter measures are dire. The fulfillment of the obligations of the Kyoto Protocol inaugurated on February 2005, and the establishment of international rules after such protocol is important issues for the international society. The reduction of green house gases such as carbon dioxides is becoming to be a top priority.

The frequent occurrence of large-scale natural disasters not seen in the past is caused by the human actions, and the necessity of international cooperation is starting to be commonly recognized. Take for example, the acid rain problem that transcends the national borders of East Asia. In order to cope with the rising risk involved, a specialist meeting of East Asia acid rain monitoring network was created in 1993, and started full operation from 2001. The participating countries included China, Indonesia, Japan, Cambodia, Malaysia, Mongolia, Myanmar, the Philippines, South Korea, Russia, Thailand, and Vietnam (http://www.eanet.cc/jpn/eanet_f.html). The Great Sumatra-Andaman earthquake that occurred in December 2004 and the Indian Ocean tsunami prompted organizations such as the various institutions of the United Nations, national governments, and NGOs to provide humanitarian support. The Sichuan earthquake of June 2008 in China made unavoidable the support of the international society. The necessity for a regional response to disasters has come to be increasingly recognized.

Furthermore, from threats to health of people such as BSE (Bovine Spongiform Ecephalopathy), which was discovered in 1986 in the UK and has since been reported to occur worldwide, SARS (Severe Acute Respiratory Syndrome), which was confirmed to have occurred in 2002, and Bird Flu, up to repeated incidences of piracy in the international sea lanes, threats and crimes that impact on the free movement of goods and people has made powerless the traditional security framework provided by national borders. New threats are emerging which could not be dealt with by the present institutions, and counter measures that transcend national borders are being sought. In other words, the need for a non-traditional security framework is becoming a call for a regional cooperation network (Shindo 2008 : 207).

(2) The Shift from NIES to PBM and Regionalism

There is another reason. When we pay attention to its relationship with the developing region, globalization could be seen to be shifting to a new stage. This has the strong possibility of increasing the importance of regional cooperation and regionalism in the future. This is a request from the near future that will be created by the new international order born from the currently on-going structural shift of the world

economy.

Come to think of it, the driving entity for globalization is mainly the private firm. The foreign direct investment and formation of an international division of labor by such firms have played an important role in East Asia's industrialization. It was the NIES that first accepted such investments, and at the end of the 1970s, the world came to pay attention to such development. This NIES pattern of development, which takes exports as the support for growth, spread to ASEAN in the second half of the 1980s, to the coastal area of China in the 1990s, as well as to Vietnam.

However, the concern of people has shifted to emerging markets, especially BRICs, namely, the 'potentially bigger market economies' (PBM) ⁽³⁾, as we entered this century. 'BRICs' is the acronym for Brazil, Russia, India, and China. This word was made up in 2001 by the well-known US investment Bank Goldman Sachs ⁽⁴⁾ for a group which would be given much attention. According to this thinking, in the next 50 years, BRICs will enter the ranks of the strongest countries of the world economy: BRICs' total GDP in dollar terms will overtake that of the 6 major advanced countries (G6) within 40 years, and will surpass half of the G6 by 2025. In 2050, of the current advanced countries only the US and Japan will remain in the world's largest six economies.

(Goldman Sachs 2001 ; 2003 ; 2007)

However, there is an opposite and clear difference between two groups growing in separate periods. Let us look at the differences by comparing NIES and BRICs. The NIES is a small-scale economy. For example, the population of the NIES (1970) was in the order of millions or tens of million, and BRICs command a population of hundreds of million.

³ According to the Economist, the term, 'emerging markets' originated from the man who invented it in 1981, Antoine van Agtmael. He came up with 'emerging markets' as the term which sounded more positive and invigorating for an investor in advanced economies (http://www.economist.com/specialreports/displaystory.cfm?story_id=12080703). The reason why the author uses the new word, potentially bigger market economies (PBM) is that since the late 1990s, large emerging economies have come to attract more and more multinational firms to both their production and potential sales sites. BRICs are only typical economies attracting most attention. Goldman Sachs made a term, the 'Next Eleven' for the eleven 'countries that could potentially have a BRICs-like impact in rivaling the G7 (Goldman Sachs 2007: 131). The N-11 consists of South Korea, Mexico, Turkey, Indonesia, Iran, Pakistan, Nigeria, Philippines, Egypt, Bangladesh, and Vietnam.

⁴ This company has changed its corporate form to a stock-owned company having a banking operation, in order to receive public funds due to its management difficulties as a result of the 2008 subprime loan crisis in the US.

Table 1. Population, trade Ratio and Service Export Ratio of BRICs and NIEs

	Populaion (million)	Trade Ratio*			Manufactures Export Ratio**			Service Export Ratio ***	
		1970	1976	2006	1970	1976	2006	1995	2006
Singapore	2.1	225%	252%	386%	31%	43%	80%	17%	20%
Taiwan Provir	14.7	63%	90%	180%	79%	85%	91%	12%	12%
Hong Kong S/	3.9	182%	183%	225%	93%	97%	91%	15%	18%
Korea, Repub	31.9	38%	68%	71%	77%	82%	89%	14%	14%
	2000	1995	2000	2006	1995	2000	2006	1995	2006
Brazil	170.4	16%	23%	26%	54%	59%	51%	10%	16%
Russian Fede	145.6	44%	71%	55%	26%	22%	17%	15%	16%
India	1015.9	23%	28%	48%	74%	79%	70%	14%	48%
China	1262.5	44%	50%	74%	84%	88%	92%	12%	10%

Note: *NIEs: Merchandise Trade/GDP, BRICs: Merchandise and Service Ratio/GDP)

** Manufactures Exports/Merchandise Exports

***Service Exports/ (Machandise +Service Exports)

Sources: Calculated by World Bank(2008), World Development Indicators 2008 and Council for Economi Planning and Development, Republic of China(208) Taiwan Statistical Data Book.

From Table 1, which compares NIES and BRICs, looking at the level of trade dependence, a big difference can be seen between the share of manufactured goods and the share of service in exports in total merchandise and service exports, for both NIES and BRICs. Seeing the remarkable growth since the 1960s, NIES already showed in 1970 an overwhelming dependence on exports to Hong Kong and Singapore, which were entrepot trading ports, and to Taiwan and South Korea. It could also be confirmed that exports were achieved through manufactured products. However, compared to NIES, in BRICs, which was beginning to get attention since the end of 1990s, the level of trade dependence is relatively low. If we exclude China, BRICs' share of manufactured goods in exports is low, and could be observed to have a tendency to decline since 2000. Moreover, a very interesting point is that, as could be typically be seen in India, the share of services to the total value of goods and services exports has been increasing, though varying in countries.

Checking the background for such difference, there are two cases to explain the contrasting low share of manufactured goods exports in BRICs vis-à-vis NIES: the case such as Russia where typically the share of fuel exports in goods is large; and the case of India where the share of service trade is large. The share in service exports accounted for by computer/information services of India in 2006 reached 73.7%. For the same year, the share for Brazil was 50.9%, China was 39.1%, and Russia was 39.2%. In the NIES, Singapore was 43.1%, and Korea was 32.3% (WB 2008: Table 4.4). In the era of BRICs or PBM, due to development of the IT Technology and globalization, service exports related to computer/information started to play an important role in exports. The rise in

the level of trade dependence and the remarkable specialization of China in manufactured exports is said to be the NIES development model, but there is the possibility that this could be shifted continuously to a BRICs or PBM development model.

The development in the 1970s and 1980s of the era of NIES through a so-called growth triangle structure completely relied on manufactured goods. However, today, when focus is on BRICs or PBM, development comes with relatively low level of trade dependence. Moreover, capital from the rest of the world is being concentrated in this region. As is shown in Figures 6 and 7, in 1970s and '80s, NIES was a major recipient of FDI, while since the 1990s, investments first made a big jump in China, and upon entering this century also steadily increased in Russia, India and others. The order of magnitude to BRICs reached several tens of billions of dollars each year, especially that towards China which is fast nearing the 80 billion dollar mark. In contrast, in the case of NIES, it has grown since the 1970s, but the scale could be thought of as in the order of several billions of dollars. This is a critically big difference. What has been behind the BRICs or PBM boom?

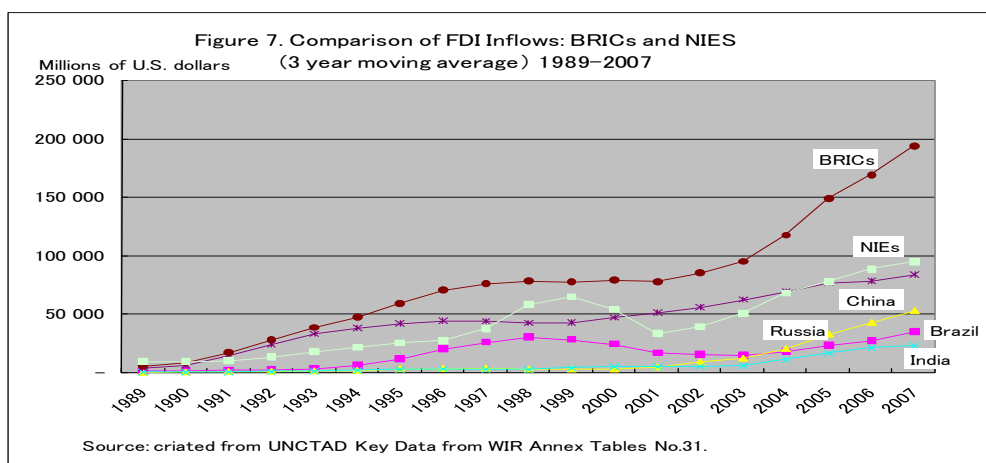
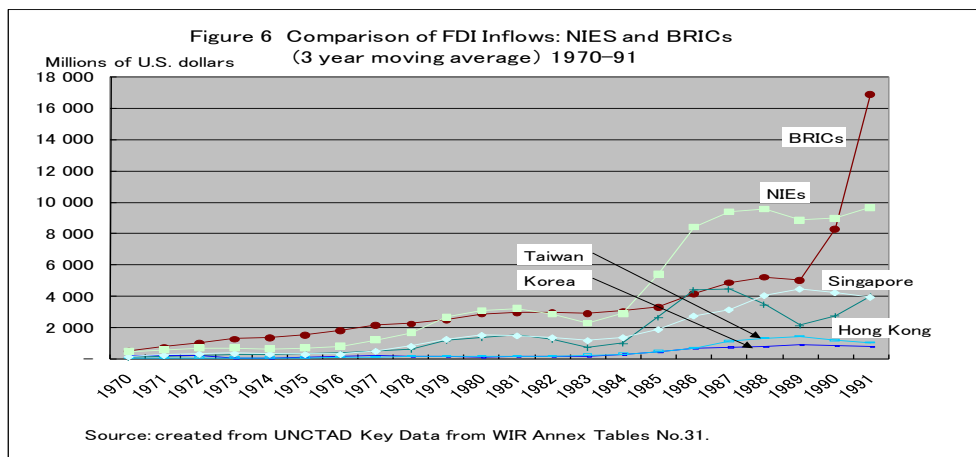
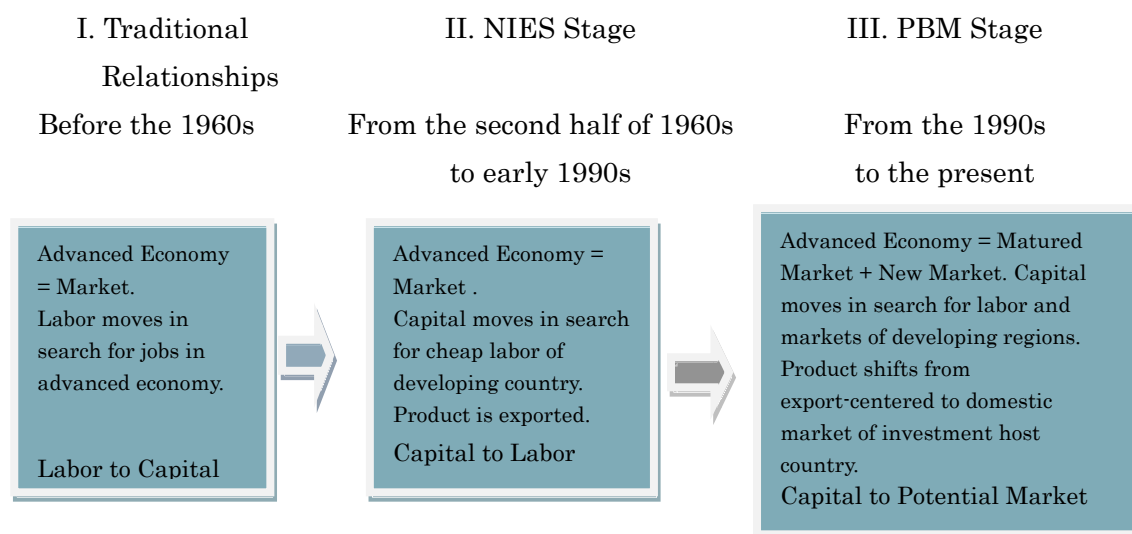


Figure 8. Changes in Spatial Relationships of Capital and Labor: A Conceptual Diagram



Note: 1. PBM stands for Potentially Bigger Market Economies.

2. To be more precise, between Stages I and II, there is the entry of capital aimed at the local market through the traditional import-substitution stage.

Source : Created by the author

If we were to spatially conceptualize the relationship of the NIES and PBM development with the internationalization of multinational firms, Figure 8 would be conceivable. Firstly, capital flowed from the advanced economic region to the developing region in order to utilize labor. The market as before is in the advanced economic region, and the product is exported to the advanced economic market. This gave birth to the export-led pattern of the NIES from the 1960s to the 1980s. This was clearly different from the previous era wherein there was a movement of people from the poor regions to the rich regions in search of work. If we were to make a catch phrase, the traditional major relationship up to then would be a so-called “labor to capital”. This reversed into the “capital to labor”.

However, the relationship between capital and labor in the PBM era has a different pattern. Moreover, the market will move towards the newly industrialized or emerging markets, which have a growth potential. This could be called as “capital to potential market.” At present, the advanced economies are maturing, ageing, and losing their ability to grow. Firms are rushing into regions having growth potentials and with less risk associated with globalization. This has given rise to interest in the PBM, especially BRICs. As such, big countries having growth potential that is under

development are preferred by capital. Countries, which are blessed with human and natural resources, as well as newly-industrialized regions, which have started a certain level of growth, are chosen outright.

However, returning to the main topic of this section, why has regionalism been made indispensable? The fact that ASEAN in the 1990s accelerated its regional integration also meant that it wanted to cope with the regionalism that was advancing in Europe and the US, but the biggest factor was the competitive relationship with a growing China. The deepening of apprehensions in competing for attracting foreign investments led ASEAN countries in the direction of constructing the AFTA (Hirakawa 2008: 102).

The PBM, or in the case of East Asia, China's growth literally means the emergence of a big country in the future. This portends of new political and economic structural changes in each region of the world. In East Asia, as was confirmed in the first section of this chapter, there will be large reorganizations in the political and economic structure from a structure, wherein only Japan boasted of an overwhelming position in terms of economic power, to a developmental structure which revolves around China. It is the understanding of the author that within this alteration process, the issue is how to maintain the region's prosperity and peace, and that the framework to cope with this issue is supposedly the strengthening of regionalism and regional economic cooperation.

(3) The World After the Global Financial Crisis and Regionalism

The collapse of Lehman Brothers in September 2008, which started with the Subprime Loan problem in the US, immediately expanded into a global financial crisis. This threw the world into a crisis, betraying the optimism then existing with the so-called decoupling theory, where it was said that a US economic stagnation would not affect the growth of East Asia⁽⁵⁾. It is a crisis where the phrase "once in a hundred year financial] crisis" of the former FRB Chairman Greenspan has come to be used as a conventional epithet. What would be the effect of this on the world political/economic structure and on the PBM, especially BRICs?

The National Intelligence Council publicized in November 2008 amidst global financial crisis a report, which predicted that globalization and the emergence of a new power would create by 2025 a world order that is very much different from the current

⁵ The Asian Development Bank's "Asian Development Outlook" contains the section 'The Uncoupling Myth', which analyzed the hypothesis that the growth of advanced countries has an effect, albeit small, on Asia, and pointed out the error of such a hypothesis (ADB 2008 : 13-27).

world system established after the Second World War. Although the US is 'likely to remain the single most powerful actor', it will step down from the position of being a super power, and there is the appearance of BRICs as a big power. The world will move towards a global multi-polar system from a system which is dominated by the US super power. It is also predicted that in such a world the western liberalism model of democracy that was forcibly pushed by the US will recede, and state capitalism or Beijing's state-centric model will come to gain power. China, Russia, and Gulf States' economic policies 'are not following the Western liberal model for self-development but are using a state capitalism'. Countries like South Korea, Taiwan, and Singapore 'also chose the same model as they initially developed their economies'. Moreover, the world will move towards the creation of the three zones of North America, Europe, and East Asia, endowing Asian regionalism with a global significance (NIC 2008).

The above National Intelligence Council report gives the world prospects for 2025, to some extent weaving in the US financial crisis, but as per the report, even with the global financial economic crisis it would be valid to think that there will be no large changes in this tendency. It is difficult for capital to continue producing profits within a slow growth economy where ageing of the population is advancing. It is the essence of capital to seek profits in a market with a high growth rate and big potentiality. If the PBM, particularly China, is able to restrain to a certain level the issues right before its eyes, such as the rich-poor gap and environmental issues, then the world's capital is expected to once again rush into those countries which have growth potential. Wouldn't it be possible for China as well as East Asian PBM to maintain growth and recover, just as the East Asian region, after the Asian currency crisis from 1997 to 1998, overcame the crisis and to bloom again along a growth trajectory in V-shape style? Actually, the East Asian PBM, as written in an article "An Astonishing Rebound" by the Economist, has led the way out of recession from the second quarter of 2009 (Economist, Aug. 13, 2009).

How would East Asia cope with the above issues? Regional self-adjustment ability could be upgraded through the creation of an international cooperation framework for the region. Only by creating a joint framework together with the peoples and countries in the circle of ASEAN and South Korea, Japan and China will surely obtain a regional society of co-existence and co-prosperity.

Moreover, it will be more and more clear that the forcing of the idea of simply putting the highest priority on liberalism is nothing else than a measure of world domination by the US. It is now clear that, using money as a basis, the US, which forced market transparency on other countries, is a society that was hijacked by some who

lacked morals. Isn't such idea of an almighty economic liberalism, which pushed the economy to an extreme level of financial capitalism that preys on the real economy, at the core of today's crisis? It is important to design an orderly development that is matched to the situation of the regional society. This calls for a regionalism that acknowledges the diversity of East Asia. Are we not living in such an era?

[4] Small Economies and Regional Cooperation

(1) Present Situation of CLMV Economies

Lastly, let us pay attention to the development of small economies, namely, the CLMV. Table 2 shows CLMV's population, GDP, per capita GDP (in current price) and FDI stock. Population is small except Vietnam and Myanmar. Their size of GDP is also small except Vietnam with 71.112 US billion dollars which is one of the PBM (hereafter dollar means US dollar); Cambodia's GDP is 8.691 billion dollars, Laos 4.273 billion dollars, Myanmar 19.618 billion dollars in 2007. Although their per capita GDP is absolutely low, these countries have made rapid progress since the 1990s; during 1990 and 2007, that of Vietnam increased 98.0 dollars to 835.1 dollars (8.5 times), Cambodia 106.0 dollars to 648.6 dollars (6.1 times), Laos 210.9 dollars to 695.8 US dollars (3.3 times), and Myanmar, with lack of credibility, 68.4 dollars to 340.4 US dollars (5.0 times).

As for stock of FDI inflow in the CLMV, even though the absolute size is small, all countries have recorded tremendous increase since the 1990s. According to the UNCTAD data, the stock of FDI increased from 1,650 million dollars to 48,325 million dollars in Vietnam (29.3 times), only 38 million dollars to 4,637 million dollars in Cambodia (122.0 times), 13 million dollars to 1,408 million dollars in Laos (108.3 times), 281 million dollars to 5,546 million dollars in Myanmar during 1990 and 2008 period (19.7 times). Looking at the volume of GDP and FDI stock in each country, we can confirm that their economic development largely depends on the foreign capital.

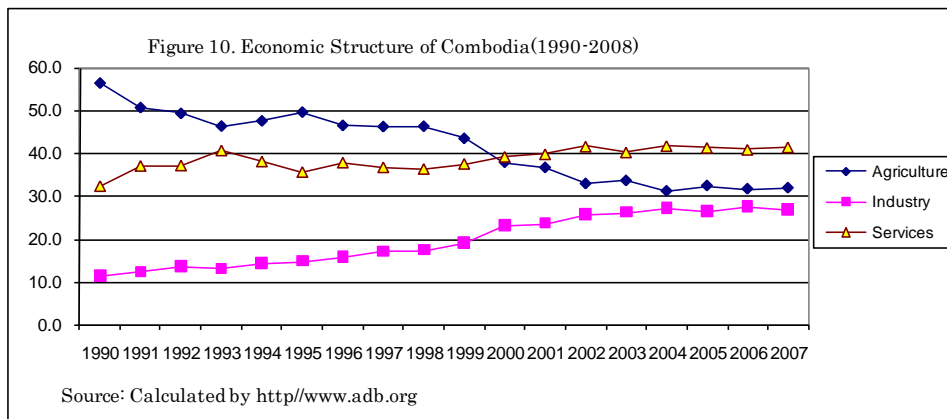
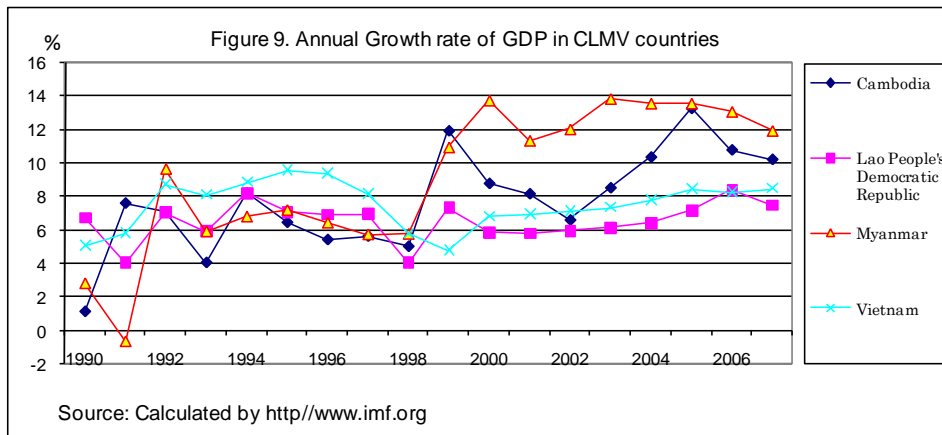
Table 2. Population, GDP, Per Capita GDP and FDI Stock in CLMV Countries

	POPULATION	GDP(US\$ B)	Per Capita GDP (US\$)		FDI Stock(Millions of dollars)		
	2007	2007	1990	2007	1990	2000	2008
Cambodia	13.8	8.691	106.0	648.6	38	1580	4637
Lao People's Democratic R	6.1	4.273	210.9	695.8*	13	556	1408
Myanmar	57.6	19.618	68.4	340.4*	281	865	5546
Viet Nam	85.2	71.112	98.0	835.1	1650	20596	48325

Note: * UNCTAD estimated data.

Source: made from http://www.unctad.org/en/docs/wir2009_en.pdf

As shown in Figure 9, the growth rates of CLMV have been kept at rather high levels of around 6% and more than that since the early 1990s. Moreover, from Figure 10 of Cambodia's change of economic structure, we can confirm that industrial structure has steadily transformed an agricultural society into an industrial one. Between 1990 and 2006, Cambodia's share of agriculture dropped to about a half from 56.5% to 31.9%, while industry increased from about 11.3% to 26.8%.



Incidentally, the 1990s was an important period for CLMV countries. They became members of ASEAN: Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. It is well-known that Vietnam inaugurated in 1986 'Doi Moi', which was the reform policy from a centrally planned to a market economy. Since then, the country made rather steady progress in its economy except in the year 1998 and thereabout when it suffered from the severe effects of the Asian currency crisis.

The Fourth ASEAN Summit in 1992 agreed to the establishment of the AFTA scheme to enhance trade and promote greater FDI and intra-ASEAN investment in the region. In 1993 the Common Effective Preferential Tariff (CEPT) was launched as the main mechanism for realizing AFTA (ASEAN Secretariat 1995:12). For the original ASEAN members, in the year 2010 the 0% tariff rates for all imports is scheduled to be

implemented, while for the newer members of CLMV, the implementation year is 2015 when ASEAN shall have accomplished the goal of regional economic integration as a single market.

Under the great changes of circumstances and conditions, such as their accession to ASEAN, the participation in ASEAN+3 cooperation, economic reforms or policy changes like trade liberalization through the AFTA framework, introduction of foreign capital, and others, the CLMV countries try to achieve their successful development.

(2) Development of the PBM and Implications for the CLMV

As we have confirmed in this paper, despite the international financial crisis that shook the world, there is to some extent a tranquilizer effect towards crisis, in the midst of which world investment, led by Japanese firms, have accelerated their investment into PBM, centering on the BRICs. This could be one reason for the surprising recovery of the PBM economies. Through it all, what political economic policies should CLM strengthen. Generally speaking, the international financial crisis did not put a stop to the development of the PBM, but on the contrary became an opportunity to accelerate its development. Consequently, there appears to be no necessity to revise the existing liberal type of development policies. On the contrary, it would be more natural to push it further. However, in order to avoid the burden of economic integration, it should not only be strengthened but at the same time it is necessary to strengthen regional cooperation. In particular, it would be necessary to pay attention to a balance between economic integration and regional cooperation. In short, it is necessary to pay attention to the following points.

1. In order to link up with an economy that is developing, provision of infrastructure would be necessary. Through this, enterprise activity could be smoothly undertaken. More concretely, an infrastructure sector that would guarantee access to existing or potential markets should be provided.

2. The provision of a legal system, which would be related to the input of capital, would be necessary.

3. The stabilization of the foreign exchange rate is crucially important. Through this, the union with the market will be guaranteed. Actually, one of the lessons of the Asian financial crisis is the order or sequence of liberalization. A small economy is fragile against speculative movements of capital from abroad. In relation to liberalization, adequate attention should be paid to its proper sequence.

4. Upon entering the PBM stage, the importance of the service sector becomes greater. The successful development of the software industry of India has received a lot of attention. Within a knowledge based economy, education becomes very important, but this is not just for avoiding the digital divide, but also for opening up a new possibility for development.

5. Simply liberalizing an economy does not guarantee development. In order to avoid the negative aspects of economic integration, further strengthening ASEAN's cooperation framework would be effective. The ASEAN Development Plan, which includes the development of Mekong and the ASEAN integration initiative, is also a developmental issue of ASEAN + 3, making it necessary to pay further attention to a regional cooperation framework.

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