Abstracts of Journal Articles

100 — Economic development, fluctuations, planning

110 — Economic development studies

**Neighbour-immiserizing growth: the Asian crisis**

This paper investigates the effects of population growth and China’s entry into the world trading regime on the North and the South. In the absence of the terms of trade effect, population growth reduces the standard of living and causes a decline in welfare. Unilateral trade liberalisation of China will worsen the terms of trade for other countries in the South, but will improve those for the North. Thus, population control is an important means to close the gap in per capita income between developing and industrial economies. Trade liberalisation by developing countries may not necessarily induce income convergence.

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**Of miracles and models: the rise and decline of the developmental state in South Korea**

This article argues that the South Korean economic ‘miracle’ was based on the ability of the state to implement a strongly developmental policy. The state was able to do so because, for a time, it was highly insulated from demands from social classes which might have diverted it from the objective of industrialisation. This insulation, or ‘relative state autonomy’, derived from an historical trajectory which left the state in an unusually dominant position in relation to these classes. Domestic dominance was one factor enabling the state to insert the South Korean economy into world markets in a more advantageous position than would otherwise have been possible. However, its very success in industrialising the country strengthened various class forces, whose demands and intrusion into politics undermined the autonomy of the state. With industrialisation, the state’s freedom of manoeuvre was lessened. International influence only reinforced those class pressures inside South Korea, resulting in a retreat of the state and an end to a developmental policy.

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**The international environment and Korea’s economic development during the 1950s–1970s**

This paper discusses four specific factors in the international economic environment that had substantial impact on the path of Korea’s economic development: US aid, the Vietnam War, the inflow of Japanese capital following the modernisation of the Korea–Japan relationship and the expansion of the Euro dollar market. Korea’s rapid economic development during the last half-century is owed mainly to the Korean government’s and people’s efforts to make the best use of the internal and external changes in the economic environment. However, it is also true that Korea’s successful economic development is, to a considerable extent, attributable to the favourable external environment surrounding Korea in the past. Korea was, for the most part, in a far more...
favourable position than other developing countries in accessing foreign capital making it possible to expand industrial investment rapidly while the economy still suffered from a low savings rate.

Mobilizing domestic and external resources for economic development: lessons from the Malaysian experience

This paper provides an overview of issues pertaining to the availability and mobilisation of resources for national development in Malaysia. It discusses recent trends in public and private savings and the need for external resources. The article concludes with an analysis of Malaysia’s integration into the world economy during the 1990s.


This article reviews Fiji’s macroeconomic performance and assesses the relative significance of foreign exchange, domestic savings and public sector resources on Fiji’s economic growth by formulating and estimating a three-gap model. The foreign exchange gap equation indicates a sharp tradeoff between investment and capacity utilisation. The government savings constraint also appears to be binding. The model is then simulated for the period between 1997 and 2001 under four growth path ‘scenarios’ that make differing assumptions concerning Fiji’s output, exports and capital flows. The results suggest that the external financing required to achieve a ‘socially desirable’ growth path is modest, amounting to an average of 3.5 per cent of potential output.

Asia’s competitiveness endgame: life after China’s WTO entry

Asia is now considering its economic prospects as China enters the WTO. Investors are concerned that China will become a major deflationary force in Asia, or that China will inflict significant damage on Asia’s growth by pulling away foreign investment and by increasingly hollowing out Asia’s manufacturing base as facilities continue to shift to the mainland. While the deflation concern is valid (as entry to the WTO will help consolidate China’s competitive power), the second fear is flawed. Asia has not lost, and will not lose, foreign investment to China. Rather, China’s improving economic well-being will benefit Asia’s exports in the long term and will exert external pressure on Asian economies to restructure.

Fast development with a stable income distribution: Taiwan, 1979–94

This paper studies the mechanisms underlying the apparent stability of the income distribution in Taiwan. An original decomposition method based on micro-simulation techniques is proposed. Applied to the distribution of income in Taiwan since 1979, it permits isolating the respective impact of changes in the earning structure; labour-force participation behavior; and the socio-demographic structure of the population. The stability of the distribution in Taiwan appears as the result of various structural forces which happened to offset each other. The small drop observed in the inequality of individual earnings resulted from the combination of unequalising changes in the wage structure and the effects of changes in female labour-force participation as well as in the educational
structure of the population. However, the same offsetting forces, together with changes in the composition of households, resulted in a small increase in the inequality of the distribution of equivalised household income.

120 — Economic growth

Asian agricultural productivity and convergence

This paper measures agricultural total factor productivity (TFP), for 18 Asian countries, from 1965–96. TFP is measured by calculating the Malmquist index with respect to the sequential frontier, which is appropriate when the cross-section is relatively small. The results show that half the countries have experienced negative productivity growth, due to losses in technical efficiency combined with stagnation in technological progress. Both cross-section and time series tests show that there is no evidence of convergence in agricultural productivity for these countries. The less productive countries are falling further behind, rather than catching up. Finally, comparisons with Africa show that although Asia has had faster TFP growth than Africa, three of the five African regions (East, Central and Southern) have grown faster than any of the Asian regions.

Suhariyanto, Kecuk and Thirtle, Colin
Central Bureau of Statistics–Jakarta and University of London

The determinants and prospects of economic growth in Asia

This paper analyses Asia’s growth experience in a broad historical and international context. East Asian countries grew faster than the rest of the world for four key reasons: they had substantial potential for catching up, their geography and structural characteristics were favourable, demographic changes worked in favour of more rapid growth, and their economic policies and strategy were conducive to sustained growth. Although the financial crisis of 1997 abruptly brought a halt to Asia’s period of robust growth, there was little in Asia’s fundamental growth strategy that inevitably led to the crisis. The key to the crisis was too much short-term capital flowing into weak and under-supervised financial systems. This suggests that with better financial management and a return to the core policies that resulted in rapid growth, the East Asian economies can again return to sustained growth.

Radlet, Steven; Sachs, Jeffrey and Lee, Jong-Wha
US Treasury; Harvard University and Korea University

Biased technical change, growth accounting, and the conundrum of the East Asian miracle

The standard neoclassical growth accounting approach suggests that much, if not all, of the fast growth rates of the East Asian ‘tigers’, was input driven. It has been suggested that these estimates may be subject to substantial errors caused by the presence of biased technical change and an elasticity of substitution that is less than one. This paper proposes a method for implementing these arguments. The authors find that, while the total factor productivity growth rates of these countries increase with the adoption of the modified growth accounting methodology, so also do the total factor productivity growth rates of a group of industrialised countries. Thus, the standard conclusions about the role of technical progress in the region do not change substantially in relative terms.

Felipe, Jesus and McCombie, J.S.L.
Georgia Institute of Technology and University of Cambridge
What is proper growth?

This paper attempts to explain the concept of ‘pro-poor growth’, and argues that it represents a major departure from the ‘trickle-down’ phenomenon. It proposes a new indicator—the pro-poor growth index—that measures the degree to which growth can be considered to be pro-poor. The new indicator is used to analyse the nature of economic growth in three countries, namely, the Republic of Korea, Lao People’s Democratic Republic and Thailand.

Indonesian economy at stake: up or down

Although the economic growth in the first quarter of 2001 grew moderately, other economic indicators show that the overall economic performance is weakening. Expenditure on investment and imports of intermediate inputs decreases, and consumer and business confidence remain weak. Monetary policy is still not tight enough; without significant intervention, increases in fuel and electricity prices, and the weakening of the rupiah, will increase inflationary pressure in the coming months. Deteriorating macroeconomic conditions have caused the budget deficit to blow out. In response, the government has revised the budget by raising taxes, increasing fuel and electricity prices, and cutting funding to local governments.

A review of total factor productivity studies in Korea and a discussion of limits to national and corporate technology strategies

In this paper, the authors review studies of total factor productivity (TFP) and limitations of technology strategies in Korea. Three distinct issues emerge from TFP studies in Korea: methodologies measuring TFP; the relative size of TFP; and the role of government enhancing productivity. Many economists agree that the contribution rate of TFP as a proportion of GNP growth is not significant, mainly due to the poor efforts of the Korean government and business regarding research and development investment and innovations. National and corporate technology strategies have also traditionally relied on imitations, reverse engineering, and direct imports of foreign capital goods and technology. The authors found that the future engine for economic growth of Korea depends on technological innovation, which relies on knowledge-based factors.

Exports and growth: is the export-led growth hypothesis valid for provincial economies?

This paper re-examines the export-led growth hypothesis using provincial data. Unlike other studies that concentrate on country-level data, this study investigates the validity of the hypothesis for the four largest provinces in Korea: Seoul, Kyunggee, Kyungnam and Pusan. The causal implication of the export-led growth hypothesis is generally supported for all provinces in the sample. The framework of analysis is two and four-variable autoregressive models that include provincial exports, provincial output, terms of trade and national output shocks. Granger-causal orderings from exports to output growth are generally supported in bivariate causal models. In multivariate models, variance decompositions and impulse-response functions further indicate that export growth has a significant impact on output growth for all provinces although a feedback effect from output to export growth appears in Seoul and Kyungnam province.
Export-led growth and structural change: evidence from Malaysia

Khalafalla, Khalid Yousif and Webb, Alan


Many studies have tried to establish the causal link between export expansion and economic growth. This article recognises that structural changes will change the sources of growth and this will affect the export-growth relationship. A country case study approach focuses on Malaysia, a country with one of the world’s highest sustained growth rates and a long history of commodity trade. VAR analysis of Malaysian quarterly trade and GDP growth from 1965 to 1996 are used. Trade data are disaggregated into primary and manufactures exports and causality tests are applied to the entire period as well as two sub-periods—1965–80, when policy emphasis was on import substitution and 1981–96, when policies favoured export-led growth. Tests confirm export-led growth for the full period and for the period to 1980 but tests on the 1981–96 period show growth-causing exports. Primary exports had a stronger direct impact on economic growth than manufactures. The weakening support for export-led growth after Malaysia shifted to an export-oriented development strategy is associated with structural changes associated with industrialisation. Interaction among trade and growth variables becomes more complex with a broadening export base and more diverse sources of growth.

Analysing the determinants of China’s aggregate investment in the reform period

Song, Haiyan; Liu, Zinan and Jiang, Ping

University of Surrey; London Guildhall University and Dongbei University of Finance and Economics


Although investment has played an important role in China’s phenomenal economic growth over the last two decades, there has been little research on investment determination at the macro level. This study examines the factors influencing China’s aggregate investment measured by the fixed capital formation during the reform period and draws useful conclusions from analysing these determinants. The investigation is based on an assumption that aggregate investment in China is determined by both the cost of investment and the increasing aggregate demand created by the reforms. A dynamic investment function is developed to simultaneously capture the long-run and short-run properties of the investment behaviour. The empirical results based on a panel data set of 28 Chinese provinces and autonomous regions suggest that a homogenous equilibrium correction mechanism exists in China’s aggregate investment process.

China’s economy: a mixed performance

Keidel, Albert


China’s economy in 2000 and early 2001 performed moderately well. But it was not performing well enough to provide the job growth needed to facilitate fast-paced market reforms. GDP growth was positive, even if the actual rate may be several percentage points lower than the officially reported figure. Price declines of recent years appear to be moderating. Budget deficits and national debt, however defined, remain manageable, and China’s overall external position in foreign trade, foreign debt, foreign investment and foreign reserves is excellent. China’s economic performance, however, has fallen short in one critical area: job creation, especially in the services sector.

On explaining China’s rural sectors’ productivity growth

Wang, Xiaolu and Kalirajan, K.P.

The Australian National University

While explaining China’s rural sectors’ productivity growth in the post-reform period, several studies have identified technological progress and improvement in technical efficiency as the two major sources of productivity growth. Though institutional reform measures have been vital to productivity...
ABSTRACTS OF JOURNAL ARTICLES


The end of disciplinary modernisation? The Asian economic crisis and the ongoing reinvention of Singapore

Wee, C.J.W.-L.


150 — Inflation

Towards implementation of inflation targeting in Indonesia

Alamsyah, Halim; Joseph, Charles; Agung, Juda and Zulverdy, Doddy


Embedded state autonomy and legitimacy: piecing together the Malaysian development puzzle

Trezzini, Bruno

country’s success and by applying an analytical framework centred on the concepts of embedded state autonomy and sociopolitical legitimacy. It concludes that Malaysia’s distinctive social, political and economic features constitute a web of forces that evolved into a positively self-reinforcing system of socioeconomic reproduction.

The pattern of household savings during a hyperinflation: the case of urban China in the late 1980s

This paper presents evidence on household savings in urban regions of the Chinese provinces Sichuan and Liaoning, based on data from the State Statistical Bureau’s Urban Household Survey for the late 1980s. In this period the Chinese economy was subject to extensive reforms that resulted in rapid economic growth followed by extremely high inflation. High inflation motivated households to switch from savings to purchase of consumer durables, which also appears to be consistent with the structure of the observed data. By providing empirical evidence on the relative importance of savings by lower, middle and upper-income groups for single-child families and for all households, this study also discusses whether savings decisions depend on the level of household income. Single-child families are the focus, not only because of their growing dominance in the current Chinese society, but also to control for the effect of demographic disparities.

Fiscal lessons from the East Asian financial crisis

This paper examines the financial crises experienced in East Asian countries beginning in 1997. A common thread of these occurrences is the failure to address the risks of positions and policies by either the public or private sector, suggesting that there is a need to improve fiscal flexibility, to better understand public sector assets and liabilities, and for a more flexible public cash management or control system. The international community may need to establish fast-disbursing assistance systems to support this increased flexibility.

The Asian crisis, private sector saving, and policy implications

The Asian financial crisis has several critical implications for savings behaviour in the crisis-hit economies as well as other Asian economies: increase in economic uncertainty; increase in poverty; decrease in public confidence in financial institutions; financial liberalisation; and reduction in corporate leverage ratio. Putting these together, the post-crisis saving rates in the crisis economies are likely to decrease without government interventions. Although the uncertainty factor may contribute to an increase in short-term saving, an abated level in household income and corporate output, and slow GDP growth will lead to a contraction in saving rates. Increased poverty, diminished public confidence in banking institutions, and the increased variability of business sales will further contribute to a reduction in saving rates of the household and corporate sectors. Post-crisis saving policy should consider stronger macroeconomic stabilisation policies to reduce the underlying economic uncertainty to encourage long-term savings/investments; improving the public confidence in financial institutions through financial restructuring and a proper deposit insurance scheme in
place; channeling informal sector saving into the formal financial institutions; and promoting pro-poor saving policies.

**The East Asian crisis and financing corporate investment: is there a cause for concern?**

Addressing the limited empirical evidence regarding microeconomic aspects of corporate financial problems in the East Asian countries in the 1990s, this article analyses the financing pattern of corporate investment in Indonesia, Korea, Malaysia and Thailand. The analysis is based on an unbalanced panel of listed firms during the period 1989–97. By using firm size, retention practices, and leverage as three different indicators of financial constraint on firm investment, the authors have examined the role of various internal and external financing variables on corporate investment in the sample countries. Results indicate that a large number of sample firms depend on free cash flow, especially in Indonesia; there was also a steady increase in debt–equity ratio in all countries. There were indications of agency costs in the use of cash flow in Korea and Malaysia and also in the use of debt financing in Malaysia and Thailand, as well as an indication of over-investment among the Thai firms during 1994–97.

**The effect of the Asian financial crisis on the relationships among open macroeconomic factors for Asian countries**

This study investigates the effect of the Asian financial crisis on the relationships among exchange rate volatility, export, import and productivity for Taiwan, Korea, Malaysia and Indonesia. Cointegration tests show no change for the long-run equilibrium relationship among these variables throughout the crisis. Granger causality finds that some exogeneity orderings alter from pre to post-crisis periods for the countries considered. Impulse response functions for the pre-crisis period demonstrate the primary importance of productivity, then second importance of export. For the post-crisis period, oscillatory paths around zero of the impulse response functions imply an ambiguous finding for the direction of effect and relative exogeneity among variables studied. The variance decompositions in export for Taiwan, Korea and Malaysia, and in productivity for Malaysia and Indonesia, did not change from the pre-crisis to the post-crisis era. However, most of the rest of the forecast error variances in variables were decomposed into their own innovation more proportional in the pre-crisis period than in the post-crisis period.

**Vulnerability to a currency crisis: lessons from the Asian experience**

Are currency crises caused by manias and panics in financial markets, or by unsustainable deteriorations in domestic macroeconomic conditions? This question is explored in the context of the recent Asian currency crisis. The theoretical concept of vulnerability is used to identify three early-warning indicators of susceptibility to a currency crisis: rapid accumulation of mobile capital; domestic lending booms; and overvalued exchange rates. It is shown that the crisis and non-crisis countries of Asia may be distinguished empirically, using these indicators, over the decade preceding the crisis. This exercise provides convincing evidence that the crisis emanated largely from domestic macroeconomic conditions.
**Who triggered the Asian financial crisis?**

The Asian financial crisis was triggered by Japanese commercial banks who reduced their exposure to Asia in response to emerging troubles in Thailand and South Korea. These banks had been severely weakened by the collapse of the real estate and stockmarket bubble in Japan in 1990. As the largest lenders in Asia and the key creditor in Thailand, Japanese banks signalled the change in sentiment to other foreign commercial banks who also withdrew their loans. These capital outflows triggered a devaluation in Thailand in mid-1997, but not in Korea until late 1997, due to the different exchange rate regimes in these countries. Despite the devaluation and outflow of bank loans, bond investors continued to provide capital to Asian borrowers until November 1997, at spreads which did not reflect the risks involved. By 1998, foreign equity investors were returning to these markets in search of bargains. Rather than rushing to the exits in a herd-like fashion, institutional investors made investment decisions which created off-setting private capital flows. This analysis suggests that more attention should be paid to the incentives facing institutional investors and the design of domestic institutions, rather than to the need for a new financial architecture.

**The Indonesian financial crisis: from banking crisis to financial sector reforms, 1997–2000**

This article argues that a more nuanced understanding of Indonesia’s economic crisis can be gained by differentiating between the sources of vulnerability and the precipitating factors. A careful review of the events leading to the crisis shows that both these factors converged during the critical period between late August 1997 and March 1998. The greatest source of vulnerability lay in Indonesia’s over-guaranteed, but under-capitalised and under-regulated, banking sector. The precipitating factors were the contagion, but more importantly, poor macroeconomic management by the Suharto regime and, to a lesser extent, the IMF exacerbated the crisis.

**Foreign exchange, food security, and financial crises in Indonesia and the Philippines**

A model of foreign exchange supplies and food security is applied to Indonesia and the Philippines. The cost of food security imports compared with available foreign currency have affected aggregate cereal supplies in both countries over the last 20 years. In addition, Indonesia’s decline in cereal supplies during the financial crisis of 1997–98 exceeded that predicted by a foreign currency shortage. The evidence suggests that short-run food security in food-importing countries is greatly affected by the interaction among foreign currency supplies, food import prices and domestic food production. Compensatory financing programs for food security should be responsive to future episodes of financial contagion, price increases or production shocks.

**A study on the Korea’s banking crisis of 1997: what causes banking crises? The case of Korea**

The paper studies the major factors associated with systemic banking crises and simulates the probability of the emergence of a crisis based on a probit model. It provides an overview of the causes of the recent banking crisis in Korea and analyses the differences between the countries which have experienced a banking crisis and those which have not. Empirical studies with a sample of 33 countries from 1980 to 1997 demonstrate that variables such as GDP...
growth rate, inflation rate, current account deficit, terms of trade, ratio of M2 to foreign exchange reserve of central bank and return on equity of banking sector are significant in explaining the crises. In addition, institutional variables such as financial liberalisation, independence of central bank and the national corruption index are also revealed as important factors.

Economic crisis and restructuring in South Korea: beyond the free market-statist debate

This paper, which examines the causes of the South Korean crisis in 1997–98 and the nature and consequences of the post-war crisis restructuring process, looks critically at the neoliberal position but also at what the authors call the statist position (which celebrated and continues to defend the usefulness of industrial policy and state direction of the economy against neoliberal critics). While there are important differences between these approaches, the authors show that because both ignore the structural causes of South Korea’s crisis, neither is able to explain, much less help overcome it. The paper then examines the economic, political and social effects of the restructuring process, demonstrating how it has left the South Korean economy more dominated by foreign capital and the chaebol, and more dependent on exports and labour exploitation than before the crisis. As a result, South Korea appears to be headed for a new crisis. The authors conclude by highlighting ongoing worker resistance to the restructuring process and a movement-building strategy for advancing a worker/community-centered recovery and development program.

Credit crunch during a currency crisis: the Malaysian experience

This article evaluates the extent to which the sharp decline in loans and advances in the Malaysian banking system during the recent currency crisis can be attributed to the ‘credit crunch’ phenomenon. The article identifies the factors that led to shifts in the supply of intermediated credit, and employs a market disequilibrium framework to quantify the extent of excess demand for loans. The empirical results identify the credit crunch period as the period from July 1997 to March 1998, while the decline in loans during the subsequent period was due to the decline in demand for credit as the economy slowed down.

The Asian financial crisis and Malaysian capital controls

This article examines the rationale behind the imposition of capital and stock-market controls in Malaysia and evaluates the effectiveness of such market intervention policies by Malaysian regulatory authorities during the Asian currency crisis of 1997. The article presents an overview of the debates on financial globalisation and finds that the Malaysian authorities resorted to non-conventional policies only when containing the crisis through traditional policy instruments, such as monetary and exchange rate policy, were no longer feasible. From the viewpoint of the regulators, the crisis bore little relationship to Malaysia’s underlying economic fundamentals and was dictated instead by the ‘herd like’ behaviour of foreign portfolio investors. They paid insufficient attention to several warning signals in the domestic economy that had been building up since the early 1990s that did not go unnoticed by institutional investors. The Malaysian regulators viewed capital controls as necessary instruments to provide a breathing space for their self-initiated austerity
measures to work. The article concludes that the imposition of capital controls yielded positive economic results, including stabilising the ringgit and the stockmarket, and improving economic growth prospects in Malaysia.

**Currency crisis and contagion: evidence from exchange rates and sectoral stock indices of the Philippines and Thailand**

This paper analyses empirically the recent Asian financial crisis by using high-frequency data of exchange rates and stock indices of the Philippines and Thailand. With time-series techniques, this study confirms that benchmark stock indices often fail to provide valuable insights into currency crises, but there is evidence that developments in some sectoral indices—including those of banking and financial sectors—seem to have caused upward pressure on exchange rates. The evidence confirms the importance of financial markets as a transmission channel during the currency crisis period.

**The Asian crisis and economic change in China**

During the East Asian financial crisis, China’s healthy reserves and low debt helped avoid a ‘country run’, yet China did experience an apparently autonomous rise in private savings, a rise in capital outflow and a slowdown in growth. The authors employ a global general equilibrium analysis to examine the relative contributions of external and internal shocks in China during the crisis. The savings rise appears to have been dominant domestically and, by coincidence, was a significant contributor to the international effects of the crisis. The successful defence of fixed US dollar parity, however, made the combined shocks more contractionary than if the exchange rate regime had been more flexible.

**Impact of the recent economic crisis on European trade and investment interests in ASEAN: an exploratory survey**

This study provides an exploratory analysis of the impact of the recent economic crisis on European trade and investment interests in ASEAN economies and the region as a whole. In the short term, about a third of the surveyed Singapore-based EU companies with operations in ASEAN reported a reduction in their trade and investment interests while the majority indicated that the crisis had marginal impact on their economic interests. In the medium and long term, most respondents were optimistic and revealed that they believed that their trade and investment interests would actually increase.

**Crisis transmission: evidence from the debt, tequila and Asian flu crises**

This article examines how external crises spread across countries. The authors analyse the behaviour of four alternative crisis indicators in a sample of 20 countries during three well-known crises: the 1982 debt crisis, the 1994 Mexican crisis and the 1997 Asian crisis. The objective is to revisit the transmission channels of crises, and to analyse whether capital controls, exchange rate flexibility and debt maturity structure affect the extent of contagion. The results indicate that there is a strong neighbourhood effect. Trade links and similarity

Nagayasu, Jun
International Monetary Fund


Yang, Yongzheng and Tyers, Rod
International Monetary Fund and The Australian National University


Daquila, Teofilo C. and Yeun, Rosie Foo Yeat
National University of Singapore and Westdeutsche Landesbank Girozentrale


De Gregorio, José and Valdés, Rodrigo O.
Universidad de Chile and Ministry of Finance–Chile

in pre-crisis growth also explain (to a lesser extent) which countries suffer more contagion. Both debt composition and exchange rate flexibility to some extent limit contagion, whereas capital controls do not appear to curb it.

**Prospective deficits and the Asian currency crisis**

This paper argues that a principal cause of the 1997 Asian currency crisis was large prospective deficits associated with implicit bailout guarantees to failing banking systems. The expectation that these future deficits would be at least partially financed by seigniorage revenues or an inflation tax on outstanding nominal debt led to a collapse of the fixed exchange rate regimes in Asia. This view is articulated using a simple model whose key feature is that a speculative attack is inevitable once the present value of future government deficits rises. Empirical evidence in support of the key assumptions underlying this interpretation of the crisis is presented.

**Taiwanese business strategies vis-à-vis the Asian financial crisis**

Taiwan’s economy has experienced sustained growth since the 1960s. Even during the recent Asian financial crisis, its economy maintained moderate growth, with fewer negative outcomes compared with other Asian. This article examines current business management in different types of enterprises in terms of their ownership, size and sector. Globalisation and, in particular, the regional economic crisis have put pressure on the Taiwanese economy. This pressure forces individual firms to become more competitive and efficient, although the impact of the crisis on each firm is uneven. Examining specific enterprises’ responses to such forces, the authors found that while small and medium enterprises become more adaptable to changes in the economic environment, other kinds of firms have also tried to cope strategically with the wider market changes.

**Capital flows and exchange rates: recent Korean and Taiwanese experience and challenges**

This article analyses the characteristics of the financial crisis and its impacts on Taiwanese and Korean economies, examining 22 macroeconomic fundamentals, such as GDP, inflation rates, government budget, trade balance, external debt, money supply, ratios of average monthly imports and cumulative inward portfolio investment to international reserves, and compared with an extensive data set of the two countries. The comparisons point out that the macroeconomic fundamentals of both countries are basically the same, except the international finance sector. After defining currency crisis and banking crisis, the causes of crises are identified as the nominal exchange rates and the short-term external debt-to-international reserves ratios. In view of this, cointegration and causality tests were used to examine the relationship between these two time series. A unidirectional causality from the short-term debt ratio to the exchange rate for Korea was found, but no causality between the two for Taiwan.
190 — Political economy

Economic and political dynamics of South–North reconciliation

Real progress has been made over the last few years in South–North Korean relations. Unfortunately, economic developments in South Korea and political developments in the United States threaten to bring an end to this progress. South Korea’s current economic policies are likely to worsen social conditions, thereby undermining the will and/or ability of the government to sustain the reconciliation process. The growing re-establishment of US military and intelligence community influence over policy towards North Korea is likely to harden the US negotiating position and raise tensions with North Korea. Continued progress in South–North relations therefore requires that South Koreans and Americans successfully organise to challenge and transform these economic and political developments.

Hart-Landsberg, Martin
Clark College

Is there a Sovietology of South-East Asian studies?

This study uses the discipline of Sovietology to explore the reasons why South-east Asian studies developed into a closed community of scholarship, often hostile to dissenting viewpoints. The disciplines bear comparison because they both manifestly failed to predict the cataclysms that befell their respective areas of study. The analysis identifies similarities in the way in which the two disciplines seemed to ignore sceptical voices and evolved a shared belief in ‘system stability’. As a result, both Soviet studies and the study of Southeast Asian international relations developed serious methodological flaws. However, this study argues that Southeast Asian studies suffered even more severe disciplinary shortcomings than its Sovietological counterpart because the academic space was further de-intellectualised by the pervasive influence of the authoritarian Southeast Asian developmental state, which blurred the distinction between scholarship and bureaucracy and which succeeded in co-opting Western academics. The result was to create a field of study that promulgated the tyranny of the single truth, which erroneously perceived Southeast Asia as a region of domestic tranquillity and regional order. What, in fact, emerged was an intellectual culture of self-censorship that kept Southeast Asian studies within tacit, self-regulated boundaries.

Jones, David Martin and Smith, Michael L.R.
University of Tasmania and University of London

195 — Economic reform

A search for robust East Asian development models after the financial crisis: mutual learning from East Asian experiences

The purpose of this paper is to search for new robust East Asian economic development models following the financial crisis. It addresses both the robustness and sustainability of Korea’s chaebol-led model, Taiwan’s small and medium enterprise-led model, and Malaysia’s foreign direct investment-led model, respectively. East Asia’s new development paradigm can be reformulated not only by adopting and learning advanced financial innovations of global standards in the framework of Gershenkron’s ‘advantages of backwardness’, but also in the concept of ‘mutual learning’ from both strengths and weaknesses of development models of the three countries. East Asia has neglected too long some inherent wisdoms that are contained in its ‘miracle models’, yet it shows that their different paths to development may lead to a positive policy convergence.

Ahn, Choong Yong
Chung-Ang University
Financial and corporate sector restructuring in South Korea: accomplishments and unfinished agenda

Since the East Asian financial crisis, South Korea has undertaken wide-ranging, economic structural reforms under IMF conditionality while receiving IMF assistance. This paper describes Korean accomplishments in restructuring the financial and corporate sectors, and also addresses the unfinished agendas. It suggests ongoing reforms in a knowledge-based economy, in which the financial sector serves as the 'brain' of the market economy by allocating scarce capital to the most profitable firms within South Korea. It also recommends that subsidiary companies of Korean chaebols become independent viable business units, and that new sources of growth be found by promoting Korean small and medium enterprises and venture businesses.

Banking and enterprise reform in the People’s Republic of China after the Asian financial crisis: an appraisal

This paper evaluates recent banking and enterprise reforms in the People’s Republic of China since the Asian financial crisis, arguing that the bad debt problem and the losses in state-owned enterprises are highly interdependent, and that both can be traced back to a lack of managerial autonomy, adequate incentive mechanisms and control structures. However, recent efforts to stabilise the financial system and to reform state-owned enterprises do not address these issues, as they are largely redistributive, shifting financial losses between different agents of the economy rather than improving the efficiency of both the financial and real sectors. Major reforms are proposed that properly address the problem of bad debts and losses.

Economic reforms and state sector bankruptcy in China

The deterioration in government finances, the bad loan problem in the state banking system and the losses of state-owned enterprises are well-known characteristics of China’s reform period. The decrease in the share of government revenues in GDP is frequently cited as a sign of a deterioration in government finances. A corollary is the gradual rise in the budget deficit. While the 1978 budget was still in surplus, new domestic government debt incurred in 1997 was equal to 28.63 per cent of total government revenues, or 3.31 per cent of GDP. At the same time, bad loans in the banking system have come to account for perhaps as much as 25-50 per cent of all loans extended by the exclusively state-owned banking system. State-owned enterprise losses have grown continuously over the economic reform period; in the case of industrial state-owned enterprises, for which detailed data are available, losses in loss-making enterprises relative to profits in profitable enterprises rose from 7.64 per cent in 1978 to 45.92 per cent in 1997.

Impact of reform and economic restructuring on rural systems in China: a case study of Yuhang, Zhejiang

This paper investigates the economic and social impact of rural reform and economic restructuring in China through a case study of Yuhang, Zhejiang during the reform period. While peasant living conditions have been improved, particularly in the 1990s, the authors argue that such progress has been an outcome of agricultural and industrial production at the household level rather than simply from the rapidly growing township and village
enterprises as it is generally believed. In contrast to the macro-level trend, the growing economy has reduced the overall spatial disparity, and produced a fairly even economic landscape in Yuhang. However, the rise of private industries has caused an economic gap between social groups, particularly the local entrepreneurs and migrant workers. Urbanisation has rapidly penetrated into localities traditionally referred to as rural. The reform-induced industrialisation and urbanisation have also rapidly altered the physical landscape at the local level, as evidenced by the substantial rate of rural housing development, rural to urban migration, and agricultural to non-agricultural land conversion.

Market reforms versus structural reforms in rural China

This paper adds to the debate on the impact of market reforms versus structural reforms in explaining agricultural output growth in China. A multiple-output stochastic frontier and a technical inefficiency equation are estimated using provincial data on the rural economy from 1986 to 1995. Grain self-sufficiency policies and incomplete market reforms in the 1980s and 1990s led to allocative inefficiency. Agricultural disinvestment shrunk the production frontier and the fragmentation of land holdings reduced technical efficiency. China’s rural economic reform is far from being complete.

Ownership restructuring in Chinese state industry: an analysis of evidence on initial organizational changes

China has now entered the third decade of its economic reform. While the sweeping decollectivisation in the rural sector during the early 1980s is widely regarded as successful, reform in the urban sector has proceeded at a much slower pace and with mixed results. The main carriers of economic activities in the urban sector are state-owned enterprises (SOEs). Since 1993, the Chinese government has embarked on a major effort to shift the focus of SOE reform from delegation of decision-making authority to enterprises, which was the predominant strategy in the preceding decade, to ownership restructuring.

200 — Econometrics and statistics

210 — Econometric models

A constructive approach to air-quality valuation in Korea

This paper uses a new constructive contingent valuation approach, based on the value-structuring capabilities of multi-attribute utility theory (MAUT) to help respondents construct and express environmental value judgements in monetary terms. The MAUT approach adopts a ‘decomposition’ procedure, which seems to be more in harmony with the constructive nature of human values and the coping strategies of respondents dealing with complexity. This article provides an application of the approach in a survey of random population samples, where the authors seek valuation of specific damages due to air pollution in Seoul, Korea, a developing economy where the valuation of environmental impacts remains scarce. The results show that although empirical evidence is sparse, there appears to be considerable scope for the use of this approach in environmental valuations.
Economic forecasting with Bayesian VAR models: the case of Korea

Seong, Byung-Hee
Bank of Korea

Policymakers and economic institutions have largely made use of large-scale economic models for economic forecasting. Despite the strength of these models in allowing policy analysis under various changes in external conditions, the accuracy of preset exogenous variables and the economic perspective of forecasters can affect the performance of economic forecasts and considerable expense is required for the upkeep and maintenance of the models because of their large size. This paper introduces Bayesian vector autoregression models which overcome a degree of disadvantage of the large-scale models and are used by some Federal Reserve Banks, owing to the consistency of performance of their models irrespective of the forecasters’ economic views and to the relative ease of their replication and improvement because of their small size. Raw materials prices, a monetary aggregate, call rate, consumer prices, GDP and the unemployment rate are employed as the main economic variables in order to ascertain empirically the usefulness of the models in the Korean case. Bayesian VAR models are shown to outperform simple standard VAR models in terms of forecasting accuracy and provide forecasting at least as good as that of large scale econometric models. Furthermore it is anticipated that Bayesian models have the potential to raise the level of widely used point-forecasts in view of their explicit expression of future uncertainty and parameter uncertainty by means of error bands.

The liquidity effects: evidence from a VAR-GARCH model

Koo, Jaewoon and Lee, Seungjun
Chonnam National University

The liquidity effect is a key to understanding a monetary transmission mechanism in both traditional and recent theoretical monetary models. The empirical support for the liquidity effect, however, is not strong enough to corroborate its significance in the actual economy. Since conditional variance of residuals of the VAR model varies over time, the authors construct a VAR-GARCH (1,1) model consisting of M2 growth rate, call rate, growth rate of industrial production and inflation rate. The main finding is that a significant liquidity effect exists in the Korean financial market. Thus they conclude that the liquidity effect is important for understanding how monetary policy affects the real economy in Korea.

China’s membership in the World Trade Organization and the exports of the developing economies of East Asia: a computable general equilibrium approach

Tongzon, Jose

There is a general perception particularly among the developing countries of East Asia that China’s WTO membership would spell bad news for their exports. The ASEAN countries in particular are quite concerned about its likely negative impact on their export and growth potentials. In this light, the main objective of this paper is to empirically assess the trade implications of China’s WTO membership for these countries. Using the latest version of the Global Trade Analysis Project (GTAP) model and based on the latest tariff reduction commitments by China, the results showed that, contrary to the current perception and previous studies, almost all of the developing countries of East Asia are likely to benefit from China’s WTO membership overall, after allowing for anticipated price adjustments. Without the price adjustments, the Philippines and Singapore would have come out as net losers. These findings confirm the need for economic and export restructuring among the ASEAN countries and the importance of accelerating their economic integration. They have also highlighted the importance of promoting trade and investment cooperation between China and ASEAN countries.
Evidence on nonlinear error correction in money demand: the case of Taiwan

Huang, Cliff; Lin, Chien-Fu Jeff and Cheng, Jen-Chi


This paper proposes a non-linear error-correction model based on smooth transition regression methodology. The model is specified such that the short-run adjustment towards long-run equilibrium is non-linear and that the error-correction is a smooth function of long-run deviation. Empirical results obtained from estimating M2 money demand in Taiwan support the hypothesis of a non-linear error-correction process and provide better interpretation of change in the demand for money.

220 — Economic and social statistics

The measurement of small-scale industry for China’s GDP accounts

Wiemer, Calla and Tian, Xiuhua

Asian Development Bank and Enterprise Survey Organization–China


The shift to an economy driven by small-scale private industry requires an adaptation of China’s statistical system to rely on sample survey methods rather than the comprehensive reporting that suited a state-dominated economy. In 1998, the number of enterprises reporting directly to the National Bureau of Statistics was reduced, but a system of aggregation through levels of the government hierarchy has remained in place for smaller enterprises pending the development of suitable sample survey techniques.

What is happening to China’s GDP statistics?

Rawski, Thomas G.

University of Pittsburgh


This paper argues that official Chinese statistics contain major exaggerations of real output growth since the beginning of 1998. The standard data contain numerous inconsistencies. Chinese commentaries castigate widespread falsification at lower levels and question the authenticity of figures emanating from the central statistical authorities. The author speculates that cumulative GDP growth from 1997 to 2001 was no more than one-third of official claims, and possibly much smaller.

300 — Domestic monetary and fiscal policy and institutions

Saving-investment relationships for Japan and other Asian countries

Sinha, Dipendra

Macquarie University/Yale University


This paper examines the relationship between saving and investment rates for Japan and ten other Asian countries. When structural breaks are taken into account, the two rates are cointegrated for Myanmar and Thailand. Causality tests with structural breaks show that the growth of the saving rate causes growth in the investment rate for Malaysia, Singapore, Sri Lanka and Thailand. The reverse causality holds for Hong Kong, Malaysia, Myanmar and Singapore.

Stockmarket and consumption: the case of Korea

Kim, Byung-Hwa and Moon, So-Sang

Bank of Korea

There have been persistent arguments as to whether share prices have an effect on consumption through a wealth effect or just temporally walk ahead of it. In the case of the Korean economy of the 1990s, it is suggested that variations in
stock prices caused a wealth effect in that the consumption of luxury goods, which are for the most part, purchased by high-income groups with large stocks, fluctuates significantly in the wake of changes in share prices. This result supports Mankiw and Zeldes’ analysis that share prices affect the consumption spending through the wealth effect and, yet, is difficult to apply to all countries and periods uniformly being largely dependent on stockholders’ propensities and the degree of economic uncertainty. Analysis of the effect of the stock price fluctuations on the consumer spending, using an error-correction model, shows that a volatile stockmarket makes macroeconomic activities more unstable, where a 10 per cent point increase in the stock prices leads to as much as a 0.6 per cent point increase in private consumption and, besides, the response happens within 1 to 2 quarters, differing from that in industrial economies, such as the United States.

310 — Monetary policy

*Exchange market pressure and monetary policy: Asia and Latin America in the 1990s*

Exchange market pressure, the sum of exchange rate depreciation and reserve outflows (scaled by money), summarises the flow of excess supply of money in a managed exchange rate regime. This paper examines Brazil, Chile, Mexico, Indonesia, Korea and Thailand, and finds that monetary policy affects exchange market pressure as generally expected: contractionary monetary policy helps to reduce exchange market pressure. The monetary policy stance is best measured by domestic credit growth. In response to higher exchange market pressure, monetary authorities boosted domestic credit growth both in Mexico and in the Asian countries.

*Macroeconomics and high interest rates in Asia before 1997*

This paper uses a vector autoregressive model to examine the behavioural relationships between macroeconomic fundamentals in four Asian countries during the pre-1997 crisis period. The study shows that in each country an increase in domestic interest rates (or expansion in interest rate differentials) had a significant and long-lasting effect on the country’s macroeconomic fundamentals, such as exchange rate, GDP growth rate and current account–GDP ratio. Monetary authorities should pay more attention to both the absolute and relative levels of the interest rate, among other factors.

*Inflation targeting in Korea: an empirical exploration*

The revised Bank of Korea Act states that the primary goal of monetary policy is price stability and recently monetary policy has moved towards an inflation-targeting framework. Some of the practical aspects that need to be considered for this move are explored in this article. In particular, issues such as the definition of the price index, the horizon over which to target inflation and the width of the inflation target bands are considered. On balance, the empirical evidence suggests that Korea is likely to be successful in adopting an IT framework over the medium term.
Interest rate policy and the behaviour of money, price and interest rates

Most central banks in the major industrialised economies have targeted a short-term interest rate rather than a monetary aggregate. Korea’s central bank has also smoothed interest rates in order to avoid excessive fluctuations in the short run. This article addresses various aspects of interest rate-targeting policy. Based on monthly data during the previous ten years, formal statistical tests support the hypothesis that both money supply and price level are non-stationary, and that there exists no systematic relationship between nominal money growth and the official interest rate. The error-correction regression indicates that the corporate bonds (three-year) rate moves with the call (overnight) rate in the long run. Changes in the call rate also have a significant effect on the corporate bonds rate. However, the magnitude of the impact varies over time.

Stability of money demand and monetary policy in Papua New Guinea: an error correction model analysis

An error-correction model is used to study the properties of money demand and to evaluate the appropriate monetary policy in Papua New Guinea. The study confirms that the determinants of money demand are real GDP, and the nominal interest and inflation rate. The income elasticity of money demand is very low. The demand for money in Papua New Guinea was stable during 1979–95, suggesting that the monetary-targeting regime by the Central Bank of Papua New Guinea is feasible. However, as Papua New Guinea proceeds with economic reforms that includes financial sector reform and a floating exchange rate regime, the stability of the demand for money may have to be re-examined periodically. The best approach for conducting the monetary policy in Papua New Guinea is to target the inflation rate.

320 — Capital markets, financial institutions

Domestic settlement systems in East Asia-Pacific economies

A country’s domestic settlement system forms the base on which its financial sector operates. Once largely manual, traditional deferred net settlement (settle next day) systems have greatly improved in both speed and efficiency due to the introduction of computers. Real time gross settlement (RTGS) (specific transactions settled immediately) further enhances the processing and reduces the systemic impact of one institution’s failure to settle. This paper discusses the various issues associated with the differing systems, reviews developments in the domestic settlement systems of 11 East Asia Pacific economies, and identifies some issues important to determining the type of system desired. It concludes that RTGS offers significant benefits regardless of a country’s economic development.
Still the weakest link: the domestic financial system and post-1998 recovery in East Asia

This article examines to what extent and within what timeframe did countries in East Asia recover from the 1997–98 financial crisis, and if there has been a recovery, can it be sustained? Drawing on the available evidence, this article attempts to answer these questions. By implication, however, it also has something to say about the vulnerability of the region to subsequent crises and briefly considers what needs to be done to reduce this.

What makes the stockmarket jump? An analysis of political risk on Hong Kong stock returns

This paper employs a components-jump volatility filter to investigate the possible market impact of political risk. The filter operates by identifying jump return dates, which are then associated with political events, allowing measurement of the market return and volatility effects of political announcements. Empirical results show that political developments in Hong Kong have a significant impact on its market volatility and return. The results have implications for option pricing and political risk management.

Asymmetric volatility spillovers in the Korean foreign exchange market

This study uses the GARCH model to capture the magnitude and changing nature of volatility spillovers from the money, stock and yen/dollar foreign exchange markets to the won/dollar foreign exchange market. The results for the period of 1 March 1990 to 31 August 2000 suggest that there was no significant spillover effect during 1990–97. However, the spillovers from money and the stockmarkets to the won/dollar foreign exchange market increased substantially after the foreign exchange crisis. The Korean liberalisation of financial markets and abolition of the daily exchange rate margin are shown to have been the major factors behind this asymmetric exchange rate volatility.

The Korean export insurance system: its implications on the trade regulations in the global trading system

This article explains the characteristics of the SCM Agreement and the OECD Arrangement relating to export insurance and describes the institutional aspects and actual functioning of the export insurance regime in Korea. Implications for appropriate regulations in the global trading system are drawn from the experience of Korea with respect to export insurance.

Two paths to financial liberalization: South Korea and Taiwan

The financial crisis that erupted in East Asia in mid-1997 has renewed the longstanding debate concerning the relationship between financial liberalisation and financial crises, effectively dividing this debate into two opposing camps: those who view the crisis as the result of insufficient financial liberalisation and the legacies of an economic model in which the state plays an active role in the allocation of economic resources to strategically designated ends; and those who identify excessive financial liberalisation and increased exposure to volatile

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Kim, Harold Y. and Mei, Jianping P.
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Kim, Jung Sik
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Thurbon, Elizabeth
capital flows as the primary cause of the crisis. This paper argues that the question around which the current debate centres—of whether too little or too much financial liberalisation was to blame for the crisis—overlooks the fact that there is more than one path to liberalisation. A more fruitful question to pose is what kind of liberalisation can deliver the benefits of access to the opportunities of the ‘global’ marketplace while still maintaining the domestic foundations for economic growth and stability? The paper presents a comparative analysis of financial liberalisation in Korea and Taiwan, and the way in which variations in their approaches determined their relative resiliency during the recent turmoil.

Financial factors and the empirical behaviour of money demand: a case study of Malaysia

This paper analyses the roles of financial factors in the behaviour of M1 and M2 demands for Malaysia. The focus is on the possible changes in the elasticities of the M1 and M2 money demands in the environment of financial innovations and on the influence of real stock prices on the holdings of monetary assets. The results reinforce existing studies that find the presence of the long-run M1 and M2 money demands and structural instability in the dynamic specification of the M1 demand. However, the authors were able to identify a stable error-correction model for the post-1986 M1 demand and for the M2 demand. The results also indicate the reduction in the long-run income and exchange rate elasticities of the money demands. Meanwhile, the interest rate sensitivity of the demands becomes more inelastic. The authors document the significance of real stock prices in influencing the demand behaviour, indicating the dominance of the wealth effect over the substitution effect.

A retrospect on China’s banking reform

China’s banking system has undergone substantial changes in the past two decades. It has been transformed from an institutional setup for a centrally planned economy to a banking system in a market-oriented economy. The reform strategy is consistent with the overall economic reform in China, which, unlike many transitional economies in Eastern Europe, has taken a gradual or incremental approach. This approach enables banks in China to progress in phases from the accounting units of the central planner to a modern commercial banking system consistent with the price system which aims at efficient allocation of financial resources. The first phase of the reform (1978–92) created a banking system that was oriented to a market economy but imprinted with the legacy of central planning. The second phase of reform (1992–present) has removed the remnants of central planning and established a fully fledged modern banking system. This paper delineates the banking reform’s gradual approach, focusing on the achievements and problems of each stage.

Chinese financial liberalization: implications for corporate governance

Chinese economic policies have been viewed as models for developing countries because of China’s remarkable economic growth rate since 1978. This success is attributable primarily to various sound economic plans. This article discusses the process of financial liberalisation in China. The analysis primarily focuses on the development of financial markets and banking reforms. These two aspects of financial liberalisation are critical to China’s reforms that will stimulate its future growth. The authors analyse the implications of these financial reforms on corporate governance.
Financial liberalization: slow and steady

In stark contrast to 20 years ago, when the government budget was the dominant source of investment, today China’s banks and stockmarkets are the main sources of financing for the nation’s economy. In 2000, bank loans financed the majority of enterprises’ working capital needs, and about 20 per cent of the country’s total fixed-asset investment (three times that of government investment). Other major sources of investment financing include enterprises’ retained earnings, government agencies’ extra-budgetary and off-budgetary revenues, individual savings, foreign direct investment, and funds raised from the domestic and overseas capital markets. Behind the financial sector’s impressive expansion, however, lies an array of problems. Banks are burdened with large amounts of non-performing loans, lower-than-required capital, inadequate risk-management capacities and many under-employed workers.

Ownership restrictions and stock-price behaviour in China

This study examines the stock-price behaviour of Chinese stockmarkets in the Shanghai and Shenzhen Stock Exchanges. There are strict stock-ownership restrictions in China. Foreign investors can only trade B shares, while domestic investors can only trade A shares. Under this two-tier trading system (A and B shares), the authors find that the stock-price behaviour is very different between the two tiers and in most of the firms. A and B share prices do not have the same price dynamics. Essentially, A and B share prices tend to be driven by their own economic forces. The results are qualitatively the same using firm-level data with or without exchange rate adjustment. The result of cointegrated/non-cointegrated A and B share prices of individual firms can be explained by the ownership distribution, liquidity and financial characteristics of the firms.

Tests of financial intermediation and banking reform in China

The authors develop tests of financial intermediation by national banking systems based on the expectation that, in commercial systems, financial intermediation should not be overly influenced by policy variables; should be greater in richer, faster-growing industrial areas; and should direct funds to the best projects regardless of where deposits originate. Using Chinese provincial data from 1991–97, the authors test whether financial reforms in the mid-1990s increased efficient intermediation by different financial institutions. Results indicate that the importance of policy lending by state banks did not fall during the recent period and that lending by financial institutions did not respond to economic fundamentals.

The nature of information in accruals and cash flows in an emerging capital market: the case of China

This article investigates the relative and incremental information content of earnings, operating cash flows and accruals in the emerging capital market of China. The issue is tested by regressing stock returns on the levels of earnings and their components. Based on a sample of 1,516 firm-years for listed Chinese firms from 1995–98, the results demonstrate that earnings have relative information content over operating cash flows. The autocorrelations and cross-sectional correlations also imply that earnings have greater persistence and predictability than operating cash flows. Discretionary accruals provide incremental information beyond that contained in non-discretionary accruals,
consistent with the argument that discretionary accruals improve the relevance of earnings in reflecting the fundamental values of the listed Chinese firms. Unlike prior findings in the studies on developed markets, no strong evidence is found that the value attached to discretionary accruals is lower than the value attached to non-discretionary accruals. This is consistent with the argument that managerial policy choices available for the listed Chinese firms were limited during the sample period under relatively uniform People’s Republic of China Accounting Standards (PRC-GAAP), thus producing fewer opportunities for earnings management. An alternative interpretation could be that Chinese investors are functionally fixated on earnings.

320 PRC

A regional platform for trading Southeast Asian equities: viable option or ‘red herring’?

With the exception of a relatively brief rally during late 1998 and early 1999, Southeast Asia’s five main equity markets have not performed well since the onset of the financial crisis in mid-1997. This paper identifies some of the reasons attributable for this relatively poor performance, and discusses one proposed solution—creating a region-wide platform for the trading of Southeast Asian equities. In particular, the paper assesses what such a regional platform would look like, its feasibility and whether it could help overcome the problems that currently face the Southeast Asian equity markets. While such a regional platform may be of some utility, it may not be sufficient in itself to revive the fortunes of the region’s equity markets. A fundamental corporate restructuring and recovery process across Southeast Asia’s business landscape remains the main prerequisite for sustained improvement in the performances of the region’s lacklustre equity markets.

320 SEA

Comparative bank efficiency across select ASEAN countries

Bank efficiency is critically important in an environment of increasingly contestable international markets. Information regarding the efficiency of banks in a particular country, compared with their counterparts in other countries, enables policymakers to make better decisions regarding the direction of their banking industry. Using a stochastic cost frontier approach, this study investigates whether there are significant differences in bank efficiency across select countries in the ASEAN region (Indonesia, Malaysia, the Philippines and Thailand). The results indicate that there are significant differences and that, on average, the ASEAN banks enjoy increasing returns to scale. Although scale economies for the ASEAN banks decrease with asset size, larger banks tend to have higher cost efficiency than smaller banks. These results support the policy of banking sector consolidation in the ASEAN countries.

320 SEA

Could tighter prudential regulation have saved Thailand’s banks?

The improvement of prudential regulation in the crisis-ridden Asian countries is suggested by international organisations as a major lesson to be implemented. The effect from tighter regulation can be estimated by simulating the crisis with new rules. The analysis for Thailand’s commercial banks shows that more effective prudential regulation could have lowered the impact from credit risks to some degree. More important for the financial meltdown were, however, certain macroeconomic risks. These are not covered by any existing regulatory arrangements. Consequently, even many tightly regulated German banks would not survive a macroeconomic shock such as Thailand’s.

320 T

Freeman, Nick

Mohd Zaini Abd Karim
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Hartmann-Wendels, Thomas and Menkhoff, Lukas
University of Cologne and University of Hannover
330 — Fiscal policy, budget expenditure and revenue

**Intergovernmental transfers and decentralisation in Indonesia**

A fundamental restructuring of intergovernmental relations involving decentralisation and expanded autonomy for provincial and local governments is under way in Indonesia. This paper explores the intergovernmental financial system that preceded the new general allocation fund (DAU), with particular attention to the old Inpres development grants. Like Inpres, the DAU attempts to address national development objectives, and can be seen as a logical consequence of reform efforts in intergovernmental finance that began long before the demise of the New Order government in 1998. The use of earmarked Inpres grants enabled the central government to ensure that key sectors such as roads, public health and education received adequate attention throughout Indonesia’s diverse regions. Local governments’ experience with Inpres should help in implementation of the DAU, yet Law 25/1999—which restructures fiscal relations between the various levels of government—may actually have increased local reliance on the central government.

_Silver, Christopher; Azis, Iwan J. and Schroeder, Larry_


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**The new Indonesian equalisation transfer**

This paper examines the intergovernmental general purpose equalisation transfer (DAU) that began operating in Indonesia in 2001. First, a description of the mechanism highlights the significant distributional role played by the ‘balancing factor’ relative to the ‘formula’, and the key differences in distribution procedures for districts/municipalities and provinces. Second, the approach and methods are analysed and evaluated. The sums available to the DAU appear more than sufficient to meet regional governments’ net expenditure requirements, at least in aggregate. The allocation mechanism has some design flaws in both its structure and the methods it uses to operationalise expenditure needs and fiscal capacity. Third, an examination of the ‘equalising’ effects of the transfer scheme shows that conclusions about equalisation depend very much on how one defines and operationalises the concept; policymakers need to be clear about what they want the DAU to accomplish in respect of equalisation.

_Lewis, Blane D._


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**Welfare effects of an export tax: Thailand’s rice premium**

An empirically based, applied general equilibrium model is used to study the welfare and distributional effects of an export tax when the implementing country possesses some monopoly power in the world market. A method is demonstrated through which a general equilibrium model can be used to find the optimal value of a tax or subsidy. This approach makes it possible to conduct the welfare analysis of a particular intervention in an explicit ‘second best’ context, to study its income distributional implications, and to explore the sensitivity of the results to variations in key behavioural parameters, structural assumptions and the government’s distributional objectives.

_Warr, Peter G._

_The Australian National University_


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115
400 — External economic relations

Dangers of differential comprehensions of Hong Kong's competitive advantages: evidence from firms and public servants

Hong Kong was for several years consistently rated as one of the best places in the world to do business by a number of influential comparative international assessments. However, most of these periodic assessments have recently downgraded Hong Kong, citing government actions as the main reason. This article addresses two questions suggested by Hong Kong’s apparent decline: does its government understand what the factors are that had hitherto made Hong Kong such an advantageous business location; and are such factors susceptible to preservation and enhancement by government action?

Thompson, Edmund R.

400 HK

The lion and the dragon: a view on Singapore–China relations

This paper starts with some observations about developments of the post-cold war era and their impact on Sino–ASEAN and Sino–Singaporean relations. It then surveys the relations between Singapore and China in the 1990s. The focus is on the establishment of official ties in 1990 and the economic interactions between the two sides in the last decade. Having surveyed the relations, the paper examines some of the problems for the promotion of closer cooperation noting the difference in the working style of both sides. In this regard, it deals specifically with the Suzhou Industrial Park and highlights the lessons that could be drawn from such a joint venture. The paper concludes by noting that Sino–Singaporean cooperation has been broadened to include defence, cultural and educational exchanges and the relationship will be more realistic and mature in the twenty-first century.

Lee, Lai To

400 PRC, S

A new thinking for PRC leaders towards cross-Straits relations in the new century

Relations across the Taiwan Straits have deteriorated since the People’s Republic of China (PRC) initiated a series of military manoeuvres over the Straits in July 1995 and March 1996. Cross-Straits relations became worse in July 1999 with Taiwan’s announcement of the ‘two states’ theory. It is true that Taiwan has the mandate to survive in the international community. It is also true that Taiwan was directing the development of cross-Straits relations in the last decade, and the PRC did not respond positively to Taiwan’s moves. This article argues that PRC leaders should take the lead in cross-Straits relations. Recognition of Taiwan’s political status quo and denouncing the use of military against Taiwan, will win the support of Taiwan’s citizens, and a peaceful unification across the Taiwan Straits will be possible. On the contrary, if the PRC continues its past policy towards Taiwan, a hot war across the Taiwan Straits would result.

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400 PRC, TW

410 — Foreign trade and commercial policy

Export variety and export performance: empirical evidence from East Asia

Does product variety matter for export performance as suggested by the new trade theory? The authors investigate empirically whether increasing export variety has contributed to the export growth of ten East Asian countries. They calculate direct measures of export variety and estimate pooled annual export

Funke, Michael and Ruhwedel, Ralf
Hamburg University
equations for those countries. The econometric results suggest that producing highly differentiated export goods gives a competitive advantage.

**International trade**

This year’s achievements in the negotiation of international trade arrangements were promising on a number of fronts, despite the fact that few agreements were concluded. Perhaps the biggest trade headlines of 2000 involved China’s efforts to accede to the WTO. Though progress has slowed in the last difficult stages of the negotiation process between China and some of its major trading partners (including the United States), it appears that the momentum has become irreversible towards China’s historic entry into the multilateral trade organisation. Other notable developments in the year 2000 include some international firsts—a trade agreement between the United States and Vietnam, and the incorporation of labour and environmental provisions in the main text of a bilateral trade agreement between the United States and Jordan. These and other highlights in the negotiation of international trade agreements in 2000 are summarised.

**Korea’s foreign economic and trade policy**

Globalisation and the information technology revolution are integrating the world into one economic zone. These changes in the global economy hold many implications for Korea, whose economy is highly dependent on international trade. Its future economic growth cannot be secured without recognising and adapting to the changes in the world. In a way, much of the success will depend on how well Korea can adapt to the changes and respond to the challenges of globalisation; and this relies on the direction of government policies, which should focus on the promotion of a free flow of trade and investment.

**Korea’s international trade policy in the global age**

As Korea strives to build a world-class economy, its trade policy aims at promoting free and open trade at home and abroad. This article explains how Korea’s current trade policy came about and touches briefly on the changes that Korea’s trade policy has gone through during the past four decades. It discusses the circumstances at the end of the 1990s that called for a break from the past and the adoption of a new direction and deals with the ongoing transformation of the world economy that also necessitated a change in policy direction. The article outlines Korea’s current international economic trade policy including policy objectives, goals and implementation.

**Can Malaysian manufacturing compete with China in the WTO?**

Given Malaysia’s small domestic market, it is not surprising to find that the country is highly dependent on exports for growth. It is expected that China’s impending accession in the WTO will enhance China’s competitiveness and this will in turn affect negatively on competitors’ exports, especially exports from other developing countries such as Malaysia. The objective of this paper is to assess the impact of China’s impending accession on Malaysian manufacturing.
Macroeconomic impacts of export commodity price subsidy in Papua New Guinea

A macroeconometric simulation study is undertaken to evaluate the impacts of a price subsidy for tree crops in Papua New Guinea. The price subsidy had favourable impacts on tree crop export income, aggregate demand, private consumption, and investment and employment. It increased imports, the budget deficit and the demand for money and adversely affected the fiscal balance, inflation and interest rates, the balance of payments position and macroeconomic stability. The price subsidy contributed favourably to internal balance but adversely affected external balance. It worked against many of the policy objectives and made macroeconomic management difficult. With the introduction of the price subsidy, the government violated the commitments made under the Uruguay Round Agreement on Agriculture and Papua New Guinea’s Structural Adjustment Program.

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China faces, debates, the contradictions of globalization

This article is not intended to provide a systematic review of the literature published in China regarding globalisation or the problems facing Beijing as it confronts the challenges presented by entry into the WTO. Rather, the article is intended to provide insights into how key, highly knowledgeable individuals are thinking about these issues and the priorities they attach to them. The article first explores the debate over globalisation, including both the mainstream view guiding current policy and the views of the minority that opposes China’s further involvement in globalisation. It then examines Chinese perspectives on the economic, political and social challenges presented by globalisation and the various steps the government is taking—or failing to take—to meet these challenges. It concludes with an assessment of the factors that might further erode support for the mainstream’s view regarding globalisation.

Garrett, Banning
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Export competition in China’s agri-food import market: pattern, assessment and China’s entry to the WTO

Trade liberalisation has become one of China’s top priorities. An important milestone of trade liberalisation in China will be its entry to the WTO. Following its bilateral WTO accession agreements with Australia and Japan in July 1999, China signed an agreement with the United States on 25 November 1999. On 19 May 2000, China and the European Union reached a market access agreement, removing the last remaining barrier to China’s 14-year effort to join the WTO. Under the terms of these agreements, China has committed to eliminate non-tariff barriers on agricultural imports once it gains entry into the WTO and to implement a series of tariff cuts between 2000 and 2004. The extent of any increase in a country’s agri-food exports that results from China’s entry to the WTO, however, might depend on the competitiveness of a country’s exports relative to its competitors. The analytical issue is how the competitive position of each exporting country in the Chinese market can be assessed.

Chen, Kevin
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Foreign contributions to China’s WTO capacity building

China’s capacity to comply with WTO principles and to adhere to scheduled commitments will be critical for the future of global trade. Now that China has formally entered the global trade body, the future of the WTO itself depends
on the success of China’s entry. Chinese officials and the populace at large agree that China’s WTO entry is another milestone in the country’s integration into the community of nations. This popular support for WTO entry, however, has not until recently translated into widespread discussion of the intricacies of WTO requirements and principles. China’s task is to popularise the patchwork of transparency, national treatment, anti-subsidy measures, ending of quotas, and terms of many agreements in such areas as intellectual property rights and information technology that make up its WTO commitments. Foreign-funded efforts have attempted to address local Chinese officials’ lack of knowledge by both explaining the broader issues of WTO fundamentals and giving specific advice on how China can make particular regulatory processes WTO compliant.

Recent claims of China’s economic exceptionalism: reflections inspired by WTO accession

The desirability of WTO membership for China depends on whether its economic successes have been the result of its discovery of new institutional forms (for example, dual-track pricing, state-owned enterprise contracts and fiscal contracts) that are optimal for China’s particular economic circumstances or have been the result of the convergence of its economic institutions to those of a typical industrial member of WTO. If the experimentalist interpretation of China’s phenomenal growth is correct, then WTO membership is a negative development because it could be a straitjacket for WTO-enforced institutional harmonisation that would constrain China’s scope for experimentation. But, if the experimentalist interpretation is wrong, then WTO membership is a positive development that will lock China onto the path of deepening economic reform. The authors assess several recent claims of China’s economic exceptionalism and conclude that they neglected the considerable costs associated with the use of these innovative mechanisms (which have led to the repeal of every one of these ‘optimal’ mechanisms) and that these mechanisms were unlikely to have produced positive results in the transition economies in Europe. China’s WTO accession could be seen as an attempt by reformers to lock economic policies onto a market-oriented course that is costly to reverse.

The WTO and China’s financial system

China has agreed to the fundamental principles for accession to the WTO with its principal trading partners. The United States and the European Union have, over a period of months, completed the arduous negotiations to conclude these agreements. These two major agreements are very close in content and will become the blueprint for China’s accession in 2001.

The WTO and the telecommunications sector in China

In terms of growth and revenue, China’s telecommunications sector is arguably the jewel in the crown of the socialist market economy. What was formerly the Ministry of Post and Telecommunications (MPT), and is presently the Ministry of Information Industries, has throughout the 1990s produced phenomenal revenue and phenomenal growth. Beginning with Deng Xiaoping’s historic trip to Shenzhen in March 1992, China’s reform-minded leadership recognised the importance of telecommunications infrastructure to the success of urgent economic growth. Revenue growth for the MPT was strong
throughout the decade, growing over 1,600 per cent. Postal services did well, but the phenomenal growth was in telecommunications revenue from 1991–99. telecommunications revenue grew 2,050 per cent against total postal service growth of 375 per cent. In 1999, combined turnover for post and telecommunications reached 331.1 billion yuan (US$40 billion), of which telecommunications activity contributed 311.2 billion yuan, or 94 per cent. As a result, the Ministry became increasingly focused on the telecommunications sector.

Twenty-three centuries of Chinese trade

One cover of The Economist magazine in November 1999 proclaimed ‘China opens up’. This paper argues that that assertion is most likely wrong, and not for the first time. In fact, ‘China closes down’ would be a more representative title for most of the last 23 centuries. For China, international commerce has always been less important than geo-political influence; and self-sufficiency has meant avoiding reliance on outsiders to save face. These tendencies are as true today as they have been throughout history. Therefore, one should not overestimate the trade impacts of China’s inclusion in the WTO. For China, entry into the WTO would be primarily a diplomatic victory in the ‘two-China’ context with Taiwan, much along the lines of mainland China’s membership in the United Nations. China will thus likely continue to strive for maximum self-sufficiency, particularly in foodgrains.

420 — Balance of payments, foreign exchange

Volatility of fundamental variables under different exchange rate system—a simple test for Hong Kong

This paper presents a comparison in the changes of Hong Kong macro-economic fundamental variables before and after its currency was ‘pegged’ to the US dollar in October 1983. Using a simple method from Flood and Rose (1995) and Baxter and Stockman (1989), this paper compares the volatilities of all aggregate variables used by those investigators insofar as these data are available for Hong Kong. The results show, contrary to the dominating empirical literature for the G-7 countries, that the volatilities of more than half of the nominal and real variables under the float are significantly higher than those under the link.

Choosing an exchange rate regime during economic transition: the case of China

The choice of an appropriate exchange rate regime during economic transition is investigated through the case of China’s 1994 reform program. Within a game-theoretic framework, the paper compares welfare under alternative policy regimes. While not upsetting government welfare, China’s exchange rate unification through a floating rate has compelling benefits as a means of aborting the multiple practice. Given the choice of a flexible rate regime for convertibility, numerical simulations show a managed float is favourable and may additionally mitigate the credibility problem associated with convertibility. Simulation outcomes also reveal China’s policy preference is to place a higher weight on competitiveness than on inflation.
Exchange rates, stock prices, and money markets: evidence from Singapore

This paper uses a monetary approach to analyse the asymmetric asset-price movements (exchange rates and stock prices) in Singapore, a small open economy with managed exchange rate targeting. The Singapore dollar exchange rates vis-à-vis the industrial countries’ currencies are negatively related to stock prices whereas the relationship between the Singapore dollar–Malaysian ringgit exchange rate and stock prices is positive. The pattern of asymmetry is explained by the relative exchange rate elasticity of real money demand and real money supply and evidenced by the distributed-lag regression and VAR analysis. Furthermore, the distributed-lag regression of monthly data suggests that fiscal revenues as well as fiscal expenditures exert positive influences on stock prices.

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On the neutrality of exchange rate policy in Singapore

This article shows that there is no long-run trade-off between exchange rate appreciation and export competitiveness in Singapore. The policy implication is that Singapore can use exchange rate appreciation to contain its inflation without hindering its competitiveness in the long run. Nevertheless, sluggishness of price in the short run implies that there is a short-run trade-off between exchange rate changes and export competitiveness. As a result, Singapore can use exchange rate depreciation to offset the impact of adverse cyclical external demand shock, as it did during the 1985–86 recession and the 1997–98 East Asian financial crisis.

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Exchange rate policy options for post-crisis Southeast Asia: is there a case for currency baskets?

Following the recent financial crises in Southeast Asia and elsewhere, the perennial issue of the exchange rate policy options for small and open developing countries has resurfaced. There seems to be an emerging consensus that the frequency with which ‘soft pegs’ have been susceptible to speculative attacks in this era of escalating global capital flows has increased pressure for developing countries to adopt ‘corner’ exchange rate regimes. This paper takes issue with this popular—‘one-size-fits-all’—prescription of exchange rate arrangements for developing countries and explores exchange rate policy options for post-crisis Southeast Asia. The principal purpose of this paper is to discuss the case for currency baskets as a general regime in its own right for Southeast Asia as opposed to being a compromise between the two corner solutions.

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Exchange rate volatility and the role of regional currency linkages: the ASEAN case

As the economies of the Association of Southeast Asian Nations (ASEAN) have moved towards closer economic ties and trade integration in recent years, the establishment of exchange rate stability is becoming an important regional policy concern, particularly in the wake of the Asian currency crisis. This paper examines the exchange rate volatility of the currencies of Indonesia, Malaysia, the Philippines, Singapore and Thailand between 1974 and 1999. Using variance decomposition (VDC) methods and impulse response functions, which are VAR-related estimation techniques, the study also investigates the regional currency linkages that may have played a role in transmitting exchange rate fluctuations. The results indicate that, in spite of the adoption of the crawling

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A peg exchange regime following the breakup of the Bretton Woods system, all of the five ASEAN currencies experienced volatility, with the Indonesian rupiah posting the highest volatility level. The switch to de facto pegging against the US dollar in the mid-1980s helped to stabilise all ASEAN currencies with the exception of the Malaysian ringgit. Each of the five currencies became more susceptible to instabilities in other ASEAN currencies in the post-1985 period. Consistent with the experience of the Asian currency crisis, the Thai baht was the main channel through which regional currency fluctuations were transmitted.

Optimum currency areas in East Asia: a structural VAR approach

This article empirically assesses the suitability of the East Asian economies for a regional monetary arrangement, on the basis of their symmetry in macroeconomic disturbances, as satisfying one of the preconditions for forming an optimum currency area. Specifically, the structural vector autoregression approach is considered in discovering the incidences of transitory and permanent shocks, as a tentative way of identifying potential candidates for monetary union. Owing to East Asia’s differing economic circumstances and development, a practical approach towards regional monetary integration would be to begin with smaller sub-groupings. The preliminary findings of this study suggest that there exists scope among selected groups of East Asian economies for potential monetary integration. The implication is that smaller sub-groupings could eventually culminate in a single currency area, subject to the fulfilment of the necessary preconditions and harmonisation requirements.

The suitability of ASEAN for a regional currency arrangement

This paper examines the costs, benefits, preconditions and implications of an Association of Southeast Asian Nations (ASEAN) regional currency arrangement that is assumed to culminate in a regional currency. On economic criteria, ASEAN appears less suited for a regional currency arrangement than Europe before the Maastricht Treaty, although the difference is not large. The transition to European Monetary Union indicates that the path towards a common currency is fraught with difficulty. A firm political commitment would seem to be vital to ensuring that an attempt to form a regional currency arrangement is not viewed as simply another fixed exchange rate regime, open to speculative crises.
**Aid policies and poverty alleviation: the case of Viet Nam**

Effective use of foreign aid for poverty alleviation requires optimally allocating aid among three components: promotion of economic growth, direct targeting of the poor, and safety nets and transfers. This article analyses the allocation of foreign aid to Vietnam by examining the poverty situation in Vietnam and drawing implications. The poverty situation and recent aid trends to Vietnam suggest that there is an imbalance between aid that promotes economic growth and aid that directly targets the poor. The phenomenon is evident in both the sectoral aid disbursement and the disbursement by approach to poverty. Additionally, aid is not regionally directed in a manner conducive to poverty alleviation and is urban-biased.

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**440 — Multinational companies**

**Mobilizing and managing foreign private capital in Asian developing economies**

Financial resources for development can be mobilised from both domestic and foreign sources. Before the 1970s, overseas development assistance was the largest source of foreign capital for development. In the 1980s and 1990s, the balance shifted in favour of private capital, but the 1997 crisis revealed fundamental problems in its utilisation. This article examines the costs and benefits of foreign capital in the region’s development and issues involved in its prudent management.

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**Foreign direct investment and trade in the Asia-Pacific region: complementarity, distance and regional economic integration**

This paper investigates the relationship between FDI and trade in the Asian Pacific economies by examining the bilateral flows of trade and FDI in a cross-sectional study. The estimation results based on the gravity model show a significant and positive relationship between trade and FDI, implying a complementary relationship. Estimated coefficients also imply that trade has a larger impact on FDI flows than such investment has on bilateral trade flows. It is evident that the distance between the home country and the host country is a significant resistance factor for trade, but not for FDI. The estimation results also suggest that the formation of APEC in 1989 has enhanced economic interdependence in trade, though not FDI yet, in the Asia Pacific region.

Stone, Susan F. and Jeon, Bang Nam

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**Does foreign direct investment promote economic growth? Evidence from East Asia and Latin America**

Although there is considerable evidence on the link between foreign direct investment and economic growth in developing countries, causal patterns of the two variables have not been investigated yet with a reliable procedure. This article provides an empirical assessment of the issue by using data for 11 economies in East Asia and Latin America. Although foreign direct investment is expected to boost host economic growth, it is shown that the extent to which foreign direct investment is growth-enhancing appears to depend on country-specific characteristics. Particularly, foreign direct investment tends to be more likely to promote economic growth when host countries adopt liberalised trade
regimes, improve education and thereby human capital conditions, encourage export-oriented investment and maintain macr oeconomic stability.

The role of foreign direct investment in Indonesia’s industrial technology development

Despite the large inflows of foreign direct investment into Indonesia’s manufacturing sector during the past three decades, Indonesia has not been very successful in taking full advantage of the presence of foreign projects to promote the development of its indigenous industrial technological capabilities. This lack of success has been attributed to the high facilitation payments required to realise a project and the relatively high costs of infrastructure services and leasing land, the lack of transparency and cumbersome licensing procedures and, until 1994, the requirement for foreign investors to divest their equity ownership to a minority position of maximum 49 per cent within a specified period of time. In order to obtain greater technological benefits from foreign direct investment, the Indonesian government will need to pursue a consistent and transparent foreign investment policy to attract the investment it needs for Indonesia’s economic recovery and for sustaining its economic growth and export-oriented industrialisation. To achieve this, the government will have to put a high priority on developing and upgrading the country’s human resources in order to raise their capacity to absorb, assimilate, modify and improve the imported technologies, whether transferred through foreign direct investment or purchased through technical licensing agreements with transnational corporations.

The association of individual attributes with attitudes toward foreign firms: a Korean case study

This paper investigates the association of individual attributes with attitudes toward foreign firms in Korea. The degree of receptivity toward foreign firms by the various components of the Korean population proved to be highly varied. Those who may have more opportunities for contact, familiarity with and knowledge of foreign firms, such as government officials and businesspeople, are more favourable toward foreign firms than are those who may have few such opportunities, such as blue-collar workers and college students. The estimation results based on the linear probability (OLS) model and the probit model showed that gender (male), job hierarchical level, and overseas experience were positively correlated with attitudes towards foreign firms, while age and size of firm were negatively correlated. Overall the study suggests that individual attributes, among others, are important influences, with varying degrees for different population groups, on forming and changing attitudes towards foreign firms in Korea. Policy implications of this study regarding the enhancement of the receptivity towards foreign firms in Korea are discussed.

Export roles of MNC subsidiaries: implications for subsidiaries in Malaysia

The literature suggests that the extent of exporting by subsidiaries of multinational corporations depends on their strategic role in the multinational corporation, their age and size, and whether their products are targeted at niche or commodity markets. In particular, it is claimed that multinational corporations that are attracted to invest in a particular country because of its resources, adopt a vertically integrated structure, grant regional or global sales mandates
to their subsidiaries or have been established in a host market for a longer time, are more likely to promote subsidiary exports. To assess these claims, 71 Malaysian subsidiaries completed surveys about their strategic roles and export activities. The results indicate that subsidiaries with regional sales mandates, are part of vertically integrated organisations, and are large or were originally attracted to Malaysia for its low cost of production, export a greater percentage of total sales than other subsidiaries.

Causal links between foreign direct investment and trade in China

This paper examines the causal relationship between foreign direct investment and trade (exports and imports) in China. The empirical study is based on a panel of bilateral data for China and 19 home countries/regions over the period 1984–98. Econometric techniques for panel data are applied to test unit roots and causality. The results indicate a virtuous procedure of development for China: the growth of China’s imports causes the growth in inward foreign direct investment from a home country/region, which, in turn, causes the growth of exports from China to the home country/region. The growth of exports causes the growth of imports, with important policy implications.

China’s inward FDI boom and the greater Chinese economy

Although divided by political and military conflict, and deep suspicion and mistrust, China, Taiwan and Hong Kong have become one integrated economic region. This has been the result largely of flows of direct investment from Hong Kong (HKDI) and Taiwan (TDI) into China. China has become the largest recipient of foreign direct investment among the developing world and the second largest globally. Most of the FDI received in China came from Hong Kong and Taiwan, not from the industrial countries that supply over 90 per cent of world foreign direct investment. This paper investigates the determinants of China’s foreign direct investment boom in the context of the greater Chinese economy. The evidence indicates that the large amount of HKDI and TDI has been associated with the greater Chinese economy and ‘Chinese connections’. Results suggest that HKDI and TDI were primarily motivated by cheap labour, incentive policies and market excess, along with the greater Chinese connections that provide Hong Kong–Taiwan investors with operational advantages over other investors.

Determinants of foreign direct investment across China

The spatial and temporal variations in foreign direct investment (FDI) among China’s 30 provinces are analysed from 1986–98. This study is distinguished from similar studies by examining changes in importance of FDI determinants through time. Evidence shows that there is a shift in the nature of FDI in China and that the cumulative FDI relative to cumulative domestic investment has a negative impact on the new FDI. Provincial officials have to improve the investment environment. Otherwise, multinational corporations may choose to invest in provinces with fewer FDI competitors. The analysis is robust across different specifications. However, it explains the FDI distribution in the coastal provinces better than it does for central and western provinces.
European direct investment in China and Sino–French joint ventures

This article identifies the role of the joint venture as a key means of entry for European investors, particularly French investors, into China. The analysis of a Sino–French joint venture’s failure highlights the main constraints and dangers to which these cooperative organisational entities are subjected in China. The in-depth study of the scale of the French automobile manufacturer Peugeot’s shares in the GPAC joint venture (Guangzhou Peugeot Automobile Co.) illustrates a concrete case of the difficulties of French direct investment in China. In order to better understand the complexity of managing a Sino-foreign joint venture, the GPAC experience is compared with the difficulties met by two other automobile manufacturing Sino-foreign joint ventures: SVAC (Shanghai Volkswagen Automotive Co.) and BJC (Beijing Jeep Co.). The basis of an event study methodology, this article presents empirical observations of the stock-market’s reaction to the formation of Sino–French joint ventures. Favourable, unfavourable or indifferent stockmarket developments provide some food for thought regarding the viability of direct French investment in China.

The changing trend of FDI patterns in China

Foreign direct investments (FDIs) are making a significant contribution to China’s economic growth and, from 1979–99, a large amount of FDI flowed into China, particularly into the industrial and manufacturing sectors. This paper discusses potential impacts of FDI on three Chinese industries: primary industry (related to agriculture such as farming, forestry and husbandry); secondary industry (industrial mining, manufacturing, water supply, construction, among others); and tertiary industry (service sectors and others). In addition, it sheds light on industrial structural change resulting from FDIs. It is most likely that China will adopt an active open-economy policy after its entry into the WTO, in order to attract foreign investments into that tertiary industry. The flow of FDI into the tertiary sectors—especially into the service, financial and telecommunication sectors—will benefit China and also make the service sectors better manage their resources and be more competitive.

What attracts foreign multinational corporations to China?

After adopting the open-door policy, China experienced a boom of inward foreign direct investment (FDI) by multinational corporations. The effects of location characteristics and government policies on FDI flows during the period from 1987–98 are assessed. A model of FDI determinants is specified and estimated with cross-section and panel data. The estimates indicate that China’s huge market size, liberalised FDI regime, and improving infrastructure are attractive to multinationals. The regional distribution of FDI within China is influenced largely by FDI incentives and historical-cultural links with foreign investors, along with other location factors.

Political and economic motivations for labor control:
a comparison of Ireland, Puerto Rico and Singapore

The global economy imposes many constraints on small economies, especially those pursuing export-oriented industrialisation through the attraction of foreign direct investment. It has been argued that the success of export-oriented industrialisation depends on the government’s ability to meet the labour requirements of this economic model—labour peace and low wages—through
labour control policies and even repression. This article compares the histories of labour control in Ireland, Puerto Rico and Singapore, three island nations of similarly small size and high degree of integration with the global economy. It is argued that the labour control methods employed during export-oriented industrialisation are not explained by an economic logic but by a political one inherited from an earlier period when labour control was motivated by the efforts of a dominant party to consolidate its power.

**Prospects for FDI in AFTA**

A growing proportion of international trade within ASEAN occurs within multinational enterprises. This article reviews the present trade and foreign investment environment within ASEAN, and analyses the impact of an ASEAN Free Trade Agreement (AFTA) on foreign investment in the region. The authors anticipate that a reduction of regional trade barriers could make Southeast Asia a more attractive investment destination to service ASEAN consumers, and integrate production processes within the region. Some indications about potential changes in the allocations of investment within the region are also provided.

**The export performance of foreign-invested enterprises in Vietnam**

Over the 1988–98 period, large amounts of foreign direct investment flowed into Vietnam. About half of this has been channelled into industries that Vietnam has comparative advantage in, and especially those which produce export products for the international market. The exports generated by foreign-invested enterprises have increased rapidly, and these enterprises have become an important factor behind the rapid export growth of Vietnam in recent years. However, the export performance of foreign-invested enterprises has depended on government policies, especially tax incentives and trade policies, as well as the home country from which the investment is sourced.

**450 — Regional cooperation, integration**

**An impact of economic integration through trade: on business cycles for 10 East Asian countries**

Many recent studies about East Asian countries discussed ‘natural’ economic integration through trade, but there are few rigorous empirical studies on how their economies were affected by the evolution of economic integration within the region. This paper investigates the effect of bilateral trade dependence on the co-movement of business cycles for ten East Asian countries. The authors find that economic fluctuations tend to be more synchronised within the region as trade interdependence among them deepens. This finding suggests the necessity of cooperative efforts to prevent or adjust unfavourable future economic crisis in East Asia.

**Asia-Pacific regionalism and Japan’s strategy**

As economic globalisation has advanced, a major component has been the rise of regional trade agreements and customs unions. Although East Asia has seen
few moves towards such agreements so far, the region’s countries are beginning to look seriously at free trade and other preferential agreements. Japan, long committed to a multilateral approach to trade issues, must adopt a flexible approach to this new regionalism. Faced with the existence of the European Union and the upcoming Free Trade Area of the Americas, Asia must also adopt a more regionalist stance—perhaps through the Asia-Pacific Economic Cooperation forum.

The evolving ASEAN Free Trade Area: widening and deepening

A recent development in regional trading arrangements has been their tendency to both widen and deepen. This paper examines the impacts of widening, and assesses the progress of deepening in the ASEAN Free Trade Area (AFTA). The widening of AFTA has seen its membership grow from six countries at its inception in 1992 to ten currently. The new entrants will gain from membership in AFTA, with the main benefits likely to come from improved access to markets in the region and increased foreign investment flows. This widening has increased AFTA’s diversity and made it more heterogeneous. But it also threatens to fragment AFTA, with the emergence of a two-tier system consisting of a developed and under-developed segment. The AFTA-Plus program is designed to deepen regional integration. Apart from harmonising customs procedures and tariff nomenclature, and fast-tracking a common customs valuation method, progress has been limited. In services and intellectual property rights for instance, the multilateral rather than regional approach would appear to be both more effective and less likely to be subject to distortions. With foreign investment, the preferential access arrangement proposed in the ASEAN Investment Area could distort the investment climate and result in unequal gains to old and new members.

Trade liberalization, economic growth and convergence: evidence from East Asian economies

In recent years most studies analysing cross-country convergence have ignored the role of international trade. These models have limited power to explain the economic growth of East Asia, given that East Asian integration is largely due to market-driven forces and trade induced by foreign direct investment (FDI). This paper investigates the interrelationship between regional integration and economic convergence by linking income convergence to intra-regional trade and FDI. A central focus of the model is how the degree of market integration driven through trade and FDI interact with income convergence among the East Asian countries during the period from 1960 to 1996. The author sheds light on the significance of trade openness, liberalisation and regional integration in contributing to cross-country income convergence.

Regional disparity and vertical conflict in Indonesia

This study examines data on regional inequality in Indonesia to help explain regional unrest. Analysis indicates that the New Order regime’s equalisation policies produced low levels of welfare inequality by transferring wealth from resource-rich provinces to poor communities on the one hand, and to Jakarta on the other. Many in the subsidising provinces resent this strategy which has held back their regions’ development. They therefore exhibit an aspiration to inequality as they seek to stop such wealth transfer and to acquire greater control.
over their own resources. Yet policy emphasis on the economy over development of political institutions has left the political system with no effective means to address regional grievances, which are now manifest in vertical conflicts between the centre and the regions. The authors propose a new philosophy for equalisation policies. Rather than using a development fund to distribute wealth evenly across the regions, policy should aim to equalise people’s opportunities and guarantee a minimum standard of basic services for all Indonesians, without impeding the growth potential of regions.

North Korea’s policy shift toward the IT industry and inter-Korean cooperation

Since the historic inter-Korean summit talks in Pyongyang, inter-Korean economic cooperation has been growing rapidly in the private sector, particularly in the IT industry. Although the new Bush administration put overall inter-Korean relations on hold, the move did not affect the IT industries of the North and the South. The speed and extent of the exchanges and cooperation that is occurring in this sector are so significant as to raise concerns among some people, given that it is a non-political sector that can have a far-reaching impact on inter-Korean exchanges as a whole.

The current framework of inter-Korean economic cooperation and its prospects

This study examines the current framework of inter-Korean economic exchange, describes its prospects, and analyses the efficiency of South Korean government measures with regard to the approval system of trade and investment, assistance to the private sector and economic sanctions. It suggests ways in which both Korean governments can enhance the efficiency of inter-Korean economic exchange and also argues that settlements of numerous policy issues are needed for smooth and sustained inter-Korean economic exchange. Settlements of numerous policy issues are needed for smooth and sustained inter-Korean economic development, in particular, a clear and explicit division in the role and function of government and the private sector.

Sino–ASEAN relations in the early twenty-first century

This article examines Sino–ASEAN relations in the early twenty-first century through a study of the role of ASEAN and China in their respective foreign policy frameworks. The interests of the United States and Japan in the Asia Pacific region and how they have influenced regional cooperation and conflicts will be analysed. China’s territorial disputes with the ASEAN states, the Taiwan issue, economic cooperation and the evolution of regional international organisations are among the major issues examined. Sino–American strategic competition has increased ASEAN’s weight in China’s foreign policy. The Chinese leadership is worried about the emergence of a new US-led Asian security alliance and it appreciates the ASEAN states’ reluctance to get involved, despite their eagerness to retain a substantial US military presence in the region. Hence, the bargaining power of the ASEAN states has been increased in their dealings with China.
The future of regional cooperation in Asia: ASEAN’s policy towards ASEM

Except for Thailand, the ten ASEAN countries are mostly small, former colonies. Since these countries won independence, the major powers have dictated the regional order in Southeast Asia, provoking confrontation and hostility among many of these nations. Against this background, ASEAN was founded to promote unity in the region, to safeguard the sovereignty and independence of member countries, and to pursue an independent foreign policy. ASEAN has fended off the impact of the Washington-led APEC while adopting an independent and proactive multilateral policy to develop the regional economy and to guarantee its solidarity. It is not surprising that major countries that have dominated the global economy are viewing the ASEAN market with keen interest. In particular, the United States, Japan and Europe have launched efforts to expand their influence in ASEAN through the Asia Pacific Economic Co-operation (APEC), the yen bloc and the Asia-Europe Meeting (ASEM) respectively.

Two funerals and a wedding? The ups and downs of regionalism in East Asia and Asia-Pacific after the Asian crisis

Departing from an analysis of the determinants of the success and failure of regional integration, this article discusses the roots of the perceived decline of ASEAN and APEC and the origins of the rapid rise of ASEAN+3 (APT). The Asian financial crisis, in particular, has exposed the structural weaknesses of ASEAN and APEC, both of which are handicapped by the political and economic diversity of their member states and the absence of a benevolent dominant state or coalition of states. It has simultaneously fuelled the development of APT because it has greatly strengthened perceptions of mutual economic interdependence and vulnerability in East Asia and resentment against the West and the United States. As APT is likely to exhibit similar structural weaknesses to ASEAN and APEC, the odds are against it developing into a strong regional organisation, notwithstanding the possibility that, in the near future, external forces and trends (stagnation of world trade liberalisation, and closer European and US integration) will, if anything, encourage plans for closer East Asian integration.

Assessing institutional relations in development partnerships: the land development corporation and the Hong Kong Government prior to 1997

This paper interprets and develops contemporary notions of partnership in relation to Hong Kong’s Land Development Corporation. It demonstrates how such agencies are likely to become overdependent on their private sector partners or ineffective in policy delivery, unless endowed with adequate powers and resources. In this context, it suggests that the Land Development Corporation’s capacity to promote urban renewal was undermined particularly by the institutional requirement to assemble redevelopment sites in multiple ownership principally through negotiation. While seeking to explain this weakness in relation to the socio-cultural context of Hong Kong, it warns that, in applying the Western experience of partnership elsewhere, full account must be taken of local circumstances and constraints.
Local government and foreign business

Although market reforms have opened the way for private business, the Chinese government and bureaucracy still play key roles in most business activities, beyond areas such as tax collection that are common functions of all governments. Foreign and domestic companies in China have long complained of the interference of government in business activities. Indeed, even in tax collection, the powers of Chinese officials can far exceed those of their counterparts in other countries. China’s tax collection is uncoordinated because the country lacks a centrally managed tax-processing mechanism and the strict controls on the uniform application of tax laws that are in place in most Western economies. In China, provincial governments collect taxes on behalf of the central government and share the revenue with Beijing on the basis of individually negotiated agreements.

State, corruption, and criminalisation in China

With China’s decentralisation and opening-up since 1979, the rise of corruption and the criminal economy can be attributed to the increased opportunities observable at macroeconomic level and a context of relative impunity for the most serious offences. Functionalist and culturalist interpretations of this corruption fail to take account of its political dimension, which is not simply a matter of its instrumentalisation in the struggle between ruling factions. Contrary to the situation prevailing in certain democratic developing countries, criminals in China do not have the option of becoming state representatives, but certain state representatives, notably at local level, are well placed to make choices to the advantage of criminal circles, as happens in Mexico, and so share in the illicit gains.

Rules and resources: negotiating the household registration system in Vietnam under reform

Under Vietnam’s subsidy system, lasting until the late 1980s, the state made many decisions about people’s lives. Among these rules were those on household registration (ho khau), which closely regulated people’s movement. The doi moi reforms dismantled the state’s hold on employment, but the ho khau system—administered by the police—remained an important tool of control over the population. It is used for the purpose of identification, eligibility for state employment and police work, as well as to restrict migration into the cities. This article argues that the limited room for manoeuvre around the household registration system before reform has greatly expanded since the 1980s. The resources that ordinary people drew on to negotiate the state’s attempts to control their place of residence have also undergone a transformation. While contacts were always necessary for any negotiation with officialdom before doi moi, these have become increasingly commercialised. The need for their use, however, has diminished as people find it convenient in many circumstances to ignore the rules.

The role of institutions in the development of Vietnam

The process of comprehensive economic reforms that commenced in 1986 has several lessons to offer for future policymaking in Vietnam. This article argues that institutional strengthening is critical for the future prosperity of the country. Several propositions from the New Institutional Economics literature are corroborated by recent evidence from Vietnam to recommend policy settings...
necessary for continued economic development. The recommendations include the establishment of well-defined property rights, including a clear and enforceable system of contracts; strengthening the planning and administrative capacity of provincial offices; and improvements in law enforcement. These institutional reforms must be given the highest priority if growth is to be revived and sustained over the medium to long term.

520 — Business management and finance

The coupling of ownership and control and the allocation of financial resources: evidence from Hong Kong

Theoretical and empirical research regarding the impact of corporate ownership on the behaviour and performance of firms have typically focused on consequences stemming from the separation of ownership and control. While large-scale business enterprise characterised by such a separation is dominant in the United States, Japan and the United Kingdom, firms in which ownership and control is coupled in the hands of individuals and their families are apparent in many other large industrial economies and are dominant in most emerging markets. This paper examines consequences regarding the generation and allocation of financial resources stemming from the coupling of ownership and control among Hong Kong-based firms. Results indicate that coupled ownership and control is positively related with dividend payout levels and financial liquidity while it is negatively related to investments in capital expenditures. Consistent with these results, coupled ownership and control is found to be positively related to short-term (accounting) profitability.

Wages, employment and economic shocks: evidence from Indonesia

After over a quarter century of sustained economic growth, Indonesia was struck by a large and unanticipated crisis at the end of the twentieth century. Real GDP declined by about 12 per cent in 1998. Using 13 years of annual labour force data in conjunction with two waves of a household panel, the Indonesia Family Life Survey (IFLS), this paper examines the impact of the crisis on labour market outcomes.

Capabilities to liabilities in Korean management

The Korean economy came to be widely regarded as a possible role model to be followed by other newly industrialising economies until the 1997 crisis shattered this image. The economy faced a competitive squeeze between lower-cost and rapidly growing economies, such as China, on the one hand, and higher knowledge/technology-based economies, such as Japan, on the other. This situation is a result of structural economic problems, such as high cost but rigid systems and widespread bureaucratic intervention. It is believed there is a need to build up a new economic paradigm, one based on market-led, global and transparent systems, giving the potential to combine the best of both worlds. This article provides a sketch of the diverse explanations for industrialisation and economic growth is followed by an evolutionary perspective on the


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RAND Cooperation;
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Rowley, Chris; Bae, Johngseok and Sohn, Tae-Won
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Korean model and an analysis of how its former capabilities have become liabilities.

**Organizational change and inertia: Korea Telecom**

This study investigates the sources of change and inertia in the three phases of organisational change: initiation, development and implementation. It examines two instances of change: in the organisational structure and the human resource management (HRM) system of Korea Telecom, a government-invested, predominantly public, telecommunications company in Korea. The government, the majority stockholder and major institutional force, played a critical role as an initiator of change, but turned into an inertial force in the later phases of change. The change of organisational structure that was strongly supported by top management was successful, while the momentum for HRM change, without such support, was not enough to overcome trade union opposition and employee resistance. The case suggests that, for an organisational change to be successful, the sources of the change need to be shifted from ‘external’ to ‘internal’ as its process develops. Committed top management and empowered change agents are required to manoeuvre the conflicting interests of diverse stakeholders.

**Secrets for survival and the role of the non-state sector in the North Korean economy**

North Korea has survived both political and economic crises under the Kim Jong Il regime. The economic survival of the state is in large part due to the growth of the second economy or non-state sector, which should play an important role in the overall transition strategy of North Korea. Currently, North Korean reform focuses on an open-door policy without much import liberalisation and on a partial domestic liberalisation limited to the consumer sector—in sum, a variant of the so-called East Asian growth model. During the entire reform process, the non-state sector is vital to keep the economy growing and to maintain jobs and incomes for survival. Promotion of the non-state sector is crucial since it would be very costly to build a reliable social safety net in a short period of time, and would minimise the crowding-out effect of the non-state sector given the slack in the state sector.

**Small Business in Korea, Japan, and Taiwan: dirigiste coalition politics and financial policies compared**

This article examines why Korea, Japan and Taiwan followed distinct modernisation trajectories, despite their similar histories, cultures and positions in the international system. All three had credit-based, price-administered financial systems; yet these similarly structured systems were wielded differently to help produce widely divergent industrial structures. While small and medium enterprises in both Japan and Taiwan flourished as the major employers and exporters, the underdevelopment of these enterprises in Korea remained unmistakable. Despite the strong growth of Korean small and medium enterprises in the 1980s, the nation still had far fewer such establishments than either Japan or Taiwan. This article explains differences in financial policy towards small business among the three countries and accounts for similarities in the process of policy change over time. The evidence suggests that economic policymaking in East Asia is best explained not by the technocratic preferences...
of an élite bureaucracy, nor by the bottom-up pressures of organised interests, but by political exigencies and the choices of the regime coalition.

The corporate culture change campaigns in Korea: lessons from their failures

Since the mid-1980s, many Korean companies have adopted a unique approach to managing their organisational culture—the ‘culture change campaign’. This article examines the effectiveness of the campaigning approach to managing organisational culture in Korea. Although many Korean companies made substantial investments in their campaigning efforts, empirical data indicate that the campaigning approach overall was not successful. The possible reasons for the failure are identified, and suggestions for improvements made. Implications for culture change management are made from the lessons of the Korean experiences, followed by a review of the foregoing research, summarising the critical success and failure factors of corporate culture change.

The entrepreneurial basis of Korean enterprise: past accomplishments and future challenges

This article examines the entrepreneurial environment that initially facilitated Korea’s rapid emergence as a global economic power in the 1970s and 1980s, as well as the subsequent managerial and strategic errors that helped precipitate the 1997 economic collapse. A principal reason for the financial collapse was a failure of Korean management to adjust to changing business conditions. As Korean firms grew in size and scope, many of the entrepreneurial characteristics that supported their early successes were replaced by bureaucratic, non-responsive management structures that proved unable to cope with emerging external opportunities and threats. Based on this analysis, several challenges facing contemporary Korean managers are discussed. A central question is what Korean firms must do to re-invent themselves in ways that will enhance their competitive edge in the future.

Managerial work goals: a study with Malaysian and Thailand managers

Knowledge about the differences and similarities of managerial values has pragmatic interest for enhancing business interactions in the global arena. This study reports the relative importance of 11 work value items as espoused by a sample of Malaysian and Thailand managers who are embracing a market ideology in the aftermath of the Southeast Asian financial crisis. The findings demonstrate both convergences and divergences, which show the emergence of a common set of managerial priorities as well as the influence of the specific country contexts. These results are discussed in terms of understanding the trends and transitions of a new Asian managerial cadre.

A study of clan enterprises: a subject of modern significance

Private enterprises in China are generally owned by a family or clan and managed according to the clan system. The author provides an overview of studies relating to clan enterprises, examines their modern theoretical value and practical significance, and suggests that further research on clan enterprises in
An investigation of the strategic information systems planning success in Chinese publicly traded firms

Kunnathur, S. and Shi, Zhengzhong
The University of Toledo and North Dakota State University


Based on a survey of Chinese publicly traded firms, the authors report on the status of the strategic information systems planning success in China. Through this analysis of the survey data, it was found that Chinese managers are not using information systems as a competitive weapon, although they have embraced some aspects of strategic information system planning. The differences between Eastern and Western cultural and political context factors help to explain this phenomenon.

Barriers to effective managerial practices in China

Siu, Noel Yee-Man and Glover, Linda
Hong Kong Baptist University and De Montfort University


This article investigates barriers to effective managerial practices in China in the 1990s. Strategic enactment theories were adopted to explain how change is managed. The evidence is drawn from 129 questionnaires, which were administered to indigenous Chinese managers involving four case studies. The findings indicate that there are five major barriers to effective managerial practice: swift market change, governmental influence, inefficient market intelligence systems, a lack of appropriate human resource skills, and the inadequacy of the production system. It is suggested that, in order to alleviate the barriers, enterprises need to be committed to quality enhancement, and effective training and development, as well as developing sophisticated market intelligence systems.

Corporate governance in transition economies: a case study of two Chinese airlines

Mar, Pamela and Young, Michael N.
World Economic Forum, Chinese University of Hong Kong


China’s eminent entry into the WTO increases the urgency of the need for corporate governance reform in its ailing state-owned enterprises. This study examines the extent to which listing of shares of Chinese state-owned enterprises on public stock exchanges—a key part of the ongoing reforms—is associated with convergence of their corporate governance practices towards those accepted as global standards. Two prominent Chinese airlines were chosen as subjects of case studies involving both primary and secondary data sources. The findings are presented along with a discussion of their implications.

Leadership approaches and perceived leadership effectiveness in Chinese township and village enterprises

Fu, Ping Ping; Chow, Irene Hau-Siu and Zhang, Yuli
Chinese University of Hong Kong and Nankai University

This is the first study to examine leadership decision-making styles, leadership approaches and perceived leadership effectiveness in Chinese township and village enterprises (TVEs). Based on data from 244 middle and lower-level managers from 18 TVEs in two cities in China, this study finds that people working in TVEs prefer working under leaders who are more people oriented than
task oriented, and whose decision-making style is selling or consultative. The two samples reported similar desires in terms of their ideal leadership, but the correlation between the leadership styles and outcomes differ significantly between the two samples. Further studies are necessary to interpret the differences.

**Naming products in China: local or foreign branding**

As China’s entry into the WTO is imminent and more multinational corporations enter and expand in the Chinese market becomes a frequently asked question. Should multinational corporations adopt a locally meaningful brand or one that sounds like the original brand name of the product but is meaningless to the Chinese consumers? In spite of the obvious importance of brand-naming decisions in the Chinese market, this issue has not been empirically addressed in the marketing literature. This study found that, in contrary to common beliefs, the local branding approach leads to more positive product perceptions among Chinese consumers. Marketing implications for international brand management and marketing strategies are drawn from these results.

**Organizational membership and environmental ethics: a comparison of managers in state-owned firms, collectives, private firms and joint ventures in China**

This study examines the relationship between organisational type and the environmental, ethical orientation of managers in the People’s Republic of China on three dimensions: stewardship; and long and short-term utilitarianism. It was found that Chinese managers uniformly self-report strong ethical commitments to environmental protection. In addition, organisational type was found to be a significant predictor for the different ethical dimensions. Overall, managers in state-owned firms uniformly reported the strongest values. Managers in private firms, on the other hand, self-reported lower values and appeared relatively more skeptical of emergent utilitarian arguments that economic performance and environmental performance are compatible in the short term.

**Origins of rent-seeking behavior in the Chinese economy**

This article focuses on rent-seeking behaviour in China and its social and economic impact as carried out by various interest groups prevalent in the coastal regions. How can the various kinds of bribery and corruption pervading Chinese society be reined in? The key lies not only in developing a sound legal system but also in establishing a sense of modern morality and political responsibility in the public arena. Previous experiences indicate that the following aspects are critically important: constructing an effective economic market; establishing an effective political system based on institutions; ensuring effective coordination between the two; and making possible the mutual adjustment between macroeconomic policies and the economy and the political system. Overall, the purpose of such innovations should be to establish effective institutions.
The impact of culture on the relationship between budgetary participation, management accounting systems, and managerial performance: an analysis of Chinese and Western managers

This study tests the hypothesis that the behavior and attitudes of Chinese and Western managers to budgetary participation will be different because of cultural differences. Chinese managers are used to represent managers from a high-collectivist, large-power distance and long-term orientation culture while Western expatriate managers are used to represent a culture that is low-collectivist, small-power distance and short-term orientation. Data were collected from 51 Chinese sub-unit managers in Xian, China and 38 expatriate sub-unit managers in Hong Kong, responding to questionnaires designed to measure the ‘availability’ of broad scope and timely management accounting systems (MAS), budgetary participation and their managerial performance. Multiple regression analysis showed that the three-way interaction term was significant, thus, suggesting that the interaction effects of MAS and budgetary participation on managerial performance were different, depending on the cultural background of the managers. More specifically, the relationship between MAS information and managerial performance of Chinese managers was negative for high levels of participation but positive for Western managers. These results have implications for the design of effective control sub-systems and suggest that the management accounting theories developed in the context of Western economies may not be generalisable to the Chinese environment.

Determinants of corporate ownership and board structure: evidence from Singapore

This study examines the determinants and inter-relationships among corporate ownership and board structure characteristics using a sample of Singapore listed firms. The institutional environment in Singapore differs from that in many industrial Western economies in several important respects, including a weak market for corporate control, more concentrated stock ownership and significant government ownership in many private sector firms. Three characteristics—board composition, board leadership structure and board size—are used to capture the monitoring ability of the board.

The Singapore developmental state in the new economy and polity

Economic reform, corporate and financial restructuring have been demanded since 1997 by major international lenders to avert the next financial crisis. Singapore stands out without the profligacy of government spending, dubious government–business relations, cronysim, corruption and nepotism. Its formula of a committed developmental state and Singapore Inc. has delivered jobs, income, homes, education, security and welfare since 1959. This paper questions the resilience of this developmental state model in the globalised environment. The new economy trends impact on socio-political values, culture and behaviour. Can Singapore Inc. reinvent itself economically without concomitant political reforms and still meet the challenges of growing affluence, new political culture, democratisation and impact of information technology on the society and polity?
The SME advantage: adding local touch to foreign transnational corporations in Singapore

Chew, Yoke-Tong and Yeung, Henry Wai-Chung

The fast-changing nature of technology and the high-quality requirements of manufactured products have altered the role of suppliers from passive manufacturers to proactive and innovative manufacturers. In Singapore, many local small and medium enterprises (SME) are suppliers to foreign transnational companies, providing them with parts and components and other kinds of production-related services. This paper examines the areas in which local SME suppliers play an important role in transferring expertise to their foreign customers. This reverse transfer contradicts the conventional wisdom of technology transfer from giant transnational companies to their SME suppliers via supplier–buyer linkages or subcontracting relations. To support these propositions, a postal survey of 41 local SMEs and interviews with representatives of nine SMEs were conducted. Empirical findings show that local SMEs are more capable than their foreign customers in such areas as local knowledge and soft technology. At a national scale, local knowledge and expertise in soft technology embedded in Singapore’s supporting industries can enhance the locational advantage of Singapore.

Debt market regulation and the impact of Thailand’s 1997 economic crisis

Lion, Michael and Zurbruegg, Ralf

This paper examines the behaviour of Thailand’s bank debt market during the onset of the 1997 economic crisis. By obtaining an estimate of the currency and country risk premia in this market, a picture of investor expectations is formed that demonstrates that the market failed to react speedily to the float of the baht and the subsequent turmoil which was associated with the onset of the crisis. These tests also demonstrate the effects of the regulatory conditions in Thailand’s financial sector through their distortion of the market mechanism which led to distorted bank debt rates. A number of policy considerations are discussed in light of this.

Thailand: opportunities and risks in a fast-changing business environment

Wedel, Paul F. and Rondinelli, Dennis A.
Kenan Institute Asia–Bangkok and University of North Carolina

Thailand’s business environment is changing dramatically in the wake of the worst financial crisis and economic recession in the country’s recent history. Some of these changes may be ephemeral, and Thailand will return to old business practices once the crisis eases, but many of the economic and political reforms now being implemented can make trade and investment in Thailand easier, more transparent, and less affected by corruption. Some of the reforms will not deliver the expected results. Others may increase uncertainty that will be counterproductive in the short run. But some of the constitutional changes—the restructuring of family controlled conglomerates, better regulation of the financial sector, demands for stronger corporate governance, and new incentives for private investment—can have profound impacts on the country’s business climate and the way US companies do business in Thailand.
540 — State enterprises, privatisation

A dynamic analysis of overstaff in China’s state-owned enterprises

Yin, Xiangkang
La Trobe University


Overstaffing in state-owned enterprises is a key and difficult issue in the Chinese economic reform. This paper models the transition process in the reform that state-owned enterprise excess staff are gradually absorbed by private enterprises and the economy grows through converting redundant state-owned enterprise workers into the labour force. It characterises the steady equilibrium, where excess staff have been completely absorbed, and the dynamic path from current state to the steady equilibrium. The optimal transition strategy maximising household utility is also discussed.

An analysis of the social costs of state-owned enterprises: results of a survey of 508 enterprises conducted in ten large cities

Li, Peilin and Zhang, Yi
Chinese Academy of Social Sciences


A diachronic investigation of state-owned enterprises reveals that since 1978 state-owned enterprises have undergone a series of market-oriented reforms in which priority was given to efficiency. A number of studies indicate that these reform measures have enhanced the total factor productivity of state-owned enterprises, yet, at the same time, there has been no significant overall improvement in the performance of the financial operations of state-owned enterprises, the major indicators of the financial returns of state-owned enterprises have sharply declined. Why should state-owned enterprises show losses when their total factor productivity had improved? The authors suggest that the main cause was the increasing social costs in the operation of state-owned enterprises. The analysis is based on a survey of industrial enterprises conducted in Jinan, Shanghai, Wuhan, Nanjing, Guangzhou, Chengdu, Xi’an and Lanzhou from August–October 1996.

Bottleneck of the economic reforms: stagnations of state-owned enterprises

He, Qinglian


Throughout the debates on economic reform in China, two widely held propositions have underlined the issue of altering the system of enterprise ownership. First, while corruption and excessively rapid illicit stripping of assets are much more likely to occur in state-owned as opposed to privately owned enterprises, it is equally true that the squandering of social resources by state-owned enterprises is contrary to the spirit of a market economy. Second, the system of employment in state-owned enterprises not only fails to provide for effective management but is at odds with the ‘entrepreneurial spirit’ of a market economy. Reforming state-owned enterprises is clearly the ‘bottleneck’ of overall economic reform in China, so much so that proceeding smoothly through it and dealing properly with the legacy of the planned economic system is a matter highly relevant to both social justice and social stability. In addition, success in bringing about reform of the financial system is also highly dependent on state-owned enterprises undergoing significant change. The state is central to the task of providing a sound social environment for the reform of state-owned enterprises.
Chinese villages and townships as industrial corporations: ownership, governance, and market discipline

Public firms in a reforming socialist economy face two problems: the old soft-budget constraint syndrome and new principal-agent problems. China’s government-owned township village enterprises (TVEs) outperform state-owned enterprises in growth rate and productivity. Three explanations are proposed in the literature: TVEs represent informal or ambiguous private property rights, which are most efficient in partial reform. The small size and scale of township-village governments as industrial corporations allow officials to monitor TVEs directly and to limit their capacity for cross-subsidising. Strict market disciplines facing TVEs render indirect market monitoring to mitigate agency problems effectively. Analyses of Jiangyin data show that while both superior to local SOEs, village and township enterprises share similar productivity, and the scale of township-village corporations slightly increases productivity. The author concludes that local–state corporatism should be revised to include market discipline as an effective governance mechanism.

Identifying the patterns of profitability across China’s state-owned industrial enterprises

A sharp decline in the aggregate profitability of industrial state-owned enterprises (SOEs) during the reform period has prompted a number of inquiries into the causes of the decline. The patterns of profitability among industrial SOEs, on the other hand, have received little attention. This paper focuses on four dimensions in explaining differences in aggregate industrial SOE profitability, namely enterprise size, ownership level, sector-specific characteristics and location. Size and sector-specific characteristics turn out to be important in explaining differences in aggregate SOE profitability, but ownership level and locational factors are not. China is fortunate in that relatively profitable sectors are large both in terms of output and employment, and contribute much to aggregate SOE profit. In order to raise aggregate SOE profit, two specific low-profitability sectors which contribute much of the losses should be targeted for reform, but otherwise SOE profitability across all sectors needs to improve. This can be achieved, in part, by closing the least profitable SOEs persisting across all sectors.

The business(es) of the Chinese state

Most other countries in transition from socialism have transformed state-owned enterprises into commercial entities through systematic, market-driven restructuring and privatisation to become more efficient and competitive. In China, a series of innovative, if often administrative, institutional reforms since 1978 have begun to achieve the Chinese authorities’ goal of ‘separating government from business’. But the Chinese state still maintains ownership of key enterprises, and government agencies carry out shareholder functions typically performed by private owners in a market economy. This article sheds light on the challenges faced by state-owned enterprises by analysing the incentives and constraints on China’s SOE reform program. Four aspects of the reforms are highlighted and evaluated against the backdrop of international experience: clarification of property rights; establishment of large group/holding companies and other new organisational structures; improved corporate governance incentives; and implementation of international financial accounting and auditing practices. The article concludes with policy recommendations.
The distinctive structure of Chinese private enterprises: state versus private sector

This study examines differences in the organisational structure of private and state enterprises in mainland China. It was conducted in 124 Chinese companies, and found that a distinctive Chinese structural model has been re-adopted in mainland private firms. It is characterised by high power centralisation and low formalisation, as measured by the Aston scales. Private enterprises also tend to re-adopt and emphasise traditional Chinese family-related values. To maintain family management, they also tend to remain small. This had a direct impact on organisational design and an indirect influence through its negative association with company size, which was significantly related to structure. This particular model might well explain some of the dynamism and growth of private firms in China.

State-market-enterprises in their transformation process in Vietnam

State market enterprises are essential factors of a management mechanism and content of the shift from the old mechanism to a new one. This shift is both a basic and comprehensive move, from a non-market business model to a market business one with state management. The need to reorganise the role of the state, market and enterprises as well as the need to change the content, working regulations and functions of these three factors have become more acute. The efforts and success of this process will be closely connected with socio-economic achievements and as a result, all national production capacity and sources will be fully liberalised and best exploited.

How will ownership in China’s industrial sector evolve with WTO accession?

What changes will WTO accession bring to China’s industry? Will it cause large state firms to be stronger or weaker, and if so, how? The paper applies the market structure theory to develop a tool called the market-share testing principle to answer these questions and to analyse ownership evolution in China’s industry. The authors’ main finding is that many large state firms will survive, and their survival strategy will involve changing from being wholly state-owned and state-controlled to diluted state ownership and reduced state control. This partnership with the private sector will get them the funding, technology and improvements in corporate governance that will enable them to grow. WTO membership will accelerate the emergence of a greatly diversified ownership structure.
630 — Industry studies (manufacturing, construction)

Economic development and structural setting: Hong Kong electronics industry

A model of economic development in developing economies is constructed and examined against the experience of the Hong Kong electronics industry. The model indicates that the local structural settings of developing economies did not foster a high profit incentive and investment environment for rapid economic development. However, the same settings when integrated into an international structural context can generate a structural profit based on the difference in the cost of production. This structural profit can act as an engine of growth for the whole economy. The application of the model has shown that the calculation of the structural profit is not simply based on certain factors of production but on the overall cost of production. The application also indicated that three main aspects of the structural settings have played the determining role in shaping the development of the industry, namely, the export network, risk and uncertainty in the local structural settings and peripheral industries.

Lam, Richard Cheung and Kwok, Hong-Kin

Small and medium enterprise dynamics in Indonesia

This paper discusses the development of small and medium enterprises (SMEs) in Indonesia before and during the crisis. It argues that SME productivity has risen substantially, at rates not far from those of larger firms. Case studies indicate that various mechanisms are at work, such as technology diffusion through foreign buyers and subcontracting. The prevalence of SME clusters suggests that they benefit small and medium enterprise development. SMEs are found to have been weathering the crisis better than larger companies, although many have been hit hard too. Being less reliant on formal markets and formal credit, SMEs are able to respond more quickly and flexibly than their larger counterparts to sudden shocks. This paper argues that, rather than providing direct assistance to smaller firms, governments should concentrate on creating a business environment conducive to small and medium business growth, and promoting provision of business development services by the private sector.

Berry, Albert; Rodriguez, Edgard and Sandee, Henry

The political economy of fibre, finance, and debt in Indonesia’s pulp and paper industries

This article examines the factors that have led Indonesian pulp producers to make large-scale investments in processing facilities without first securing a legal and sustainable raw material supply. It is argued that the country’s pulp and paper conglomerates have been willing to invest billions of dollars in high-risk projects because their owners have been able to avoid much of the financial risks involved. Three factors that have allowed them to do so are heavy government subsidies, including access to wood from natural forest at costs well below its stumpage value; weak regulation of Indonesia’s financial sector; and failure on the part of international financial institutions to adequately assess the risks involved in pulp and paper investments. The paper concludes with several policy options to promote sustainability, including the elimination of the wood supply subsidy to the pulp industry, the introduction of a credible independent monitoring program of plantation development and a moratorium on new pulp and paper processing capacity extensions until public audits of companies’ pulp wood supply plans are carried out.

Barr, Christopher
Centre for International Forestry Research
The source market performance in Indonesia’s manufacturing industry

Prior to the enactment of competition law and the establishment of a competition commission, much has been debated about competition policy. Two major views emerged from such debate. The first one tends to interpret the high level of concentration and profitability as indicators of the presence and abuse of market power (market power hypothesis). The other one translates both concentration and profitability as measures of firms, which in turn reflects consumer satisfaction (efficiency hypothesis). The article examines the determinants of market performance of the Indonesian manufacturing industry based on the two hypotheses and empirical studies support both hypotheses. The authors, however, suggest stronger support for the efficiency hypothesis than for the market power hypothesis. The findings indicate that blanket deconcentration is not appropriate. But by the same token, a permissive attitude towards strategies designed to maintain dominant position is not appropriate either.

Assessing the output and productivity growth of Malaysia’s manufacturing sector

Given the importance of the manufacturing sector in the second-tier newly industrialising economy of Malaysia, this paper uses the stochastic frontier approach to assess the growth potential of this sector. First, the production function is estimated by using panel data comprising 28 manufacturing industries over the period from 1981 to 1996. Unlike previous studies that used the growth accounting approach, output growth is not only decomposed into input growth and total factor productivity growth. Total factor productivity growth is further decomposed into technological progress and technical efficiency, thereby providing more direction for policymaking.

China’s comparative labour productivity performance in manufacturing, 1952–1997: catching up or falling behind?

This study joins the debate of whether Chinese manufacturing has experienced a significant catch-up with, or a process of falling behind, the world’s industrial economies. It calculates a new set of industry-of-origin, China–US purchasing power parities for major manufacturing industries at 1987 prices. Then, using a newly constructed data set, it derives China’s comparative labour productivity level in manufacturing for the period from 1952 to 1997. The results show that China’s comparative labour productivity increased from about 3.0 in 1952 to 7.6 in 1997 (USA=100), but with a long period of stagnation at around 4.5 between 1958 and 1990. A clear catch-up process has been observed since the beginning of the 1990s when China’s market-oriented reform deepened.

EU technology transfer to China: the automotive industry as a case study

Since the inception of the open-door economic reform under Deng Xiaoping’s initiative in 1978, the Chinese economy has in the past 20 years grown at an average annual rate of 9.4 per cent. China’s path mirrors in many respects the experiences of Japan and South Korea in their rapid growth periods. A fundamental difference, however, is the fact that the rapid growth in China has been accompanied by increasing inflows of foreign direct investment. A striking feature of that foreign direct investment is the emphasis on technology transfer. This
paper analyses the process of technology transfer in the context of learning by doing and summarises its findings within a comparative developmental context.

630 PRC

The impact of WTO membership on the automobile industry in China

Many areas of China’s economy stand to see change from WTO accession, from agriculture to insurance and banking to telecommunications. Among the sectors affected, the automobile industry, as an old-line heavy industry, seems one of the most open to a global challenge. Since its reorganisation in the post-Mao Zedong reform era, China’s auto industry has been nurtured in a protectionist environment. Joint venture companies have satisfied domestic passenger car vehicle needs, but price and quality problems have left the industry open to some challenge in a free market post-WTO world.

Harwit, Eric

Firm-level evidence on productivity differentials and turnover in Taiwanese manufacturing

High rates of firm entry and exit have accompanied the rapid and sustained growth of output in Taiwan’s manufacturing sector. A high rate of firm turnover can contribute to industry productivity growth if it reflects a transfer of resources from less efficient to more efficient producers. Using comprehensive firm-level panel data from the Taiwanese Census of Manufacturers for 1981, 1986 and 1991, total factor productivity is measured for entering, exiting and continuing cohorts of firms and to quantify the contribution of firm turnover to industry productivity improvements. Across manufacturing firms, significant differences in productivity are found that are reflected in turnover patterns. Cohorts of new firms have lower average productivity than incumbents but are themselves a heterogeneous group. The more productive members of the group, on average, survive and, in many cases, their productivity converges to the productivity level of older incumbents. Exiting firms are less productive than survivors. The productivity differential between entering and exiting firms is an important source of industry-level productivity growth in Taiwanese manufacturing, accounting for as much as one-half of industry improvement in some industries and time periods.

Aw, Bee Yan; Chen, Xiaomin and Roberts, Mark J.
Pennsylvania State University; The World Bank and Pennsylvania State University

The strength of Vietnamese industrial fabric: institutional mechanisms of firm competitiveness in the textile and garment industries in Vietnam

Facing the volatile demands of fragmented global and domestic markets, Vietnamese textile and garment firms in the state and non-state sectors have adopted two different strategies to increase their production flexibility and competitiveness vis-à-vis one another and in the global market. State firms have preferred vertical integration and capital-intensive investments. Non-state enterprises have generally relied more on horizontal diversification and informal network linkages. The strong competitiveness of Vietnamese state firms in the context of globally driven flexible production indicates that flexibility is not necessarily incompatible with vertical integration. Vietnamese data also suggest that the specific features of the flexible production and competition strategies are powerfully shaped by both governmental policies and measures on the one hand, and by socioculturally embedded social relations on the other.

Luong, Hy V.
University of Toronto
640 — Technological change

Rapid Internet development in China: a discussion of opportunities and constraints on future growth

China has exhibited rapid Internet growth, with the number of Internet users in China doubled every six months in the last two years. This article describes the facilitating roles played by the large pool of information technology personnel, fast diffusion of personal computers, telecom infrastructure, digital networks and active foreign involvement. A number of problems limiting growth are identified, such as slow speed, high costs, murky regulations, unbalanced development and absence of credit systems.

Zhao, Hong Xin
Saint Louis University

700 — Primary and service industries

710 — Agricultural structure

Supporting smallholder dairying in Asia

Tropical Asia is the largest milk-producing region of the world. Its efficiency as an integrated smallholder production system provides financial, health and social benefits to millions of rural dwellers. Variations between cultures and economic circumstances define local options for further development of smallholder dairying. Notwithstanding the success of this industry, it has been misunderstood in some international development agencies and national policies, and as a consequence has not attracted the same analysis and investment as other sub-sectors of agriculture and rural development. Technological and environmental efficiencies suggest that smallholder dairy industries may demonstrate a higher likelihood of sustainability that the mono-cultural industries of industrial countries. The contributions, success and social and economic spin-offs support a revised consideration of smallholder dairying in the national development policies of tropical Asia.

Falvey, L. and Chantalakhana, C.
University of Melbourne and Kasetsart University

Market integration in regional Indonesian rice markets

This article queries the continuing need for government intervention in the rice market in Indonesia and evaluates the dynamics of intra-regional price relationships before and after rice self-sufficiency, attained in 1985, using weekly consumer rice price data from each province in Indonesia for the period 1982–93. Five regional markets are evaluated, including Sumatra, with eight provincial markets; Java, with five provincial markets; as well as Kalimantan, Sulawesi and Bali-Nusa Tenggara, each with four provincial markets. In addition, bootstrapped regression analysis is used to evaluate factors associated with market integration within each of these regional markets, including government rice procurement and distribution, local infrastructural development, in addition to the effects of having attained rice self-sufficiency. Transportation costs are not included explicitly in the model. The results show that the development of market infrastructure may enhance the efficiency of the Indonesian rice market more than government intervention thus, a focus on further development of infrastructure is warranted. However, intervention may be necessary in regions that are poorly developed and where access to other markets is difficult.

Ismet, Mohammad and Llewelyn, Richard V.
Bureau of Logistics–Jakarta and Petra Christian University
Factor shares, productivity, and sustainability of growth in the Malaysian agriculture sector

This study examines the structure of the Malaysian agricultural production function over a 37-year period (1960–96). In particular, this study analyses how the shares of factors and total factor productivity to agricultural growth change over time, using the Cooley–Prescott time-varying parameter model. The relative magnitudes of the permanent and temporary portions of the time-varying parameter vectors, and changes in factor shares and input elasticities for Malaysian agriculture, are also examined over time. Finally, policy implications for agricultural sustainability are discussed.

Intensification, complexity and evolution: insights from the Strickland–Bosavi region

Agricultural systems must be understood as embedded within the total socio-cultural system of which they are a part. Difference in the intensity of those systems is, therefore, only one aspect of difference in the complexity of the total systems. Processes of intensification and innovation that are implicated in change to agricultural systems are, similarly, instances of more general processes of adaptation and transformation which underwrite change in complex systems. These considerations inform understanding of differences between, and change within, non-hierarchical and communally organised societies of the interior lowlands of Papua New Guinea. With a focus on two societies of the Strickland–Bosavi region of Papua New Guinea this paper locates considerations of agricultural intensity and intensification within the broader contexts of socio-cultural complexity and processes of adaptation and transformation.

Land use change and intensification in Papua New Guinea 1975–1996

Land use intensity mapping of Papua New Guinea (circa 1975) has been updated to 1996 and analysed with respect to changes in area, population distribution and preferred environments for land use. Although the rural population has increased by approximately 50 per cent over that time, the area of village land use has expanded only 11 per cent. Those environments that were most preferred for village agriculture in 1975 have tended to experience proportionately greater population increase over the period 1975–96 than elsewhere.

Agrarian differentiation in post-socialist societies: evidence from three upland villages in north-western Vietnam

The literature on post-socialist transformations displays a fairly broad consensus that changes in macro structures of state and economy generate or increase rural inequality. This article examines the distributional effects of macro changes in Vietnamese villages. Findings from local-level research highlight the multiple ways in which people react to changes in macro structures. Core fields of negotiation by local people include exchange relations, the use of surplus and land tenure. Local negotiation may lead to local-level trajectories of agrarian change that differ significantly from national-level changes. Changes in macro structures thus may not substantially alter the underlying process of differentiation. Rural people may be rich and poor for the same reasons as under collective agriculture, although income differences may have become more accentuated.
720 — Agricultural development and policy

Land tenure and farm management efficiency: the case of paddy and cinnamon production in customary land areas of Sumatra

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This study identifies the impacts of land tenure institutions on the efficiency of farm management based on a case study of lowland paddy (rice) and upland cinnamon production in customary land areas of Sumatra. While the traditional joint-family ownership system is found to exist in paddy land, more individualised ownership systems are widely observed in upland areas. Yet, the authors found no statistical evidence that residual profit per unit of land is affected by land tenure institutions in either the lowlands or uplands, indicating that the prevailing land tenure institutions are equally conducive to efficient farm management.

A welfare analysis of biological technical change under different supply shift assumptions: the case of cocoa in Malaysia

Gotsch, Nikolaus and Wohlgenant, Michael K.
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Emerging modern biotechnological improvements will make possible the cultivation of crops with higher yields, while enhanced resistance to pests and diseases will facilitate a reduction in the use of pesticides. In this article, the welfare effects of a regional technical change in relation to a perennial crop are measured. Dynamic aspects of supply responses to prices as well as to changes in technology are addressed when the effects of biological lag and the variation of asset productivity are taken into consideration. The effects of the adoption of improved cultivars are assessed for both a parallel and a conservative, pivotal shift in the supply curve. The theoretical model is implemented for cocoa in Malaysia as a large producer country on the one hand, and all other countries as an aggregate on the other. Relatively small price and quantity effects result from the adoption of new cultivars. Although the magnitude of the effects on producer benefits and total benefits in Malaysia depend crucially on the type of supply shift assumed, significant benefits occur for Malaysian producers. Consumers’ gains in the rest of the world are approximately offset by producers’ losses in the rest of the world, suggesting that a considerable share of the gains would benefit consumers in industrial northern hemisphere countries at the expense of producers who do not immediately adopt improved cultivars.

Dilemmas of development in Oceania: the political economy of the Tongan agro-export sector

Storey, Donovan and Murray, Warwick E.


The authors discuss the recent diffusion of the orthodox development model in Oceania and highlight some evolving dilemmas. In particular, they explore the social, economic and ecological tensions arising from economic reforms that are exacerbating the fragility of already vulnerable nation-states and communities. A case study of the impacts of agro-export growth in Tonga is presented.
**Boserup and Brookfield and the association between population density and agricultural intensity in Papua New Guinea**

Data from a 1990–96 nationwide study of Papua New Guinea systems—the Mapping Agricultural Systems in PNG study (MASP)—is used to re-examine Brookfield with Hart’s (1971) findings on the association between agricultural intensity and population density in Papua New Guinea. A significant association exists between these variables, both within the MASP data, and within the agricultural systems examined by Brookfield with Hart, when the MASP data is applied to them. However, a large amount of variation exists in the data. Systems in which mismatches occur between population density and agricultural intensity are found to be associated with small island environments, the substitution of purchased food for locally produced food, migration and high levels of child malnutrition. Child malnutrition may be one of the consequences of a failure to innovate and thus maintain food production. It is argued that Boserup’s (1965) model of agricultural transformation and Brookfield’s past work on intensification (which he now downplays), continue to provide valuable insights into agricultural change in contemporary Papua New Guinea.

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**Intensification of agricultural systems in Papua New Guinea**

This paper provides an overview of the ways in which villagers have intensified agricultural systems in Papua New Guinea, focusing on the last 60 years. The intensification techniques used by villagers include: adoption of more productive staple crops, in particular sweet potato, cassava, Xanthosoma taro, Solanum potato and maize; adoption of more productive cultivars, especially banana and sweet potato; shortening the fallow period; extending the cropping period; certain soil fertility-maintenance techniques, other than natural regrowth fallows (composting, managed tree fallows, especially using casuarina, a legume/root crop rotation, and soil erosion control); and other intensification techniques including soil tillage, drainage, construction of garden beds, garden segregation, mounding and irrigation. People often use more than one technique and the techniques used vary among the major agricultural zones. The adoption of new food crops and more productive cultivars of existing food crops have facilitated many of the other changes, particularly longer cropping periods and shorter fallow periods.

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**Addressing shortcomings in the Household Responsibility System: empirical analysis of the Two-Farmland System in Shandong Province**

Despite apparent overwhelming benefits, implementation of the Household Responsibility System in China contained a number of flaws. The Two-Farmland System, which originated in Pingdu City in Shandong Province, sought to address the twin problems of land fragmentation and economies of size. A stochastic frontier production function analysis that isolates the impacts of land allocation reforms suggests that the Two-Farmland System increased efficiency by around 7 per cent. This article highlights the need for empirical analysis to assess objectively the merits or otherwise of particular reforms.
Development and adoption of dryland cropping technologies in Hebei Province of northern China

The main objective of this paper is to review the participation and role of agricultural economists in an agricultural research development project in rural China. An important component of the overall project was development of a detailed farm-level questionnaire which was administered to a random sample of rural households in three different years. This allowed socioeconomic analyses of changes in agricultural practices as well as the changing roles of labour use and decision-making in the rural areas. An overview of the questionnaire is discussed and general results of selected socioeconomic studies are presented. Successes and difficulties in technology adoption are discussed. The final section contains an assessment of the role of agricultural economists in the agricultural research programs in this development project with a focus on lessons learned.

WTO and China’s agriculture

If China enters the WTO and if the trade terms for agriculture are the same as or very similar to those contained in the negotiation between China and the United States, the short-term effects on China’s agriculture will be modest, except in the case of soybeans. The longer-run effects of trade opening will depend on how effective China’s rural economy is in responding to the adjustments, especially in labour employment, that must be made to economic growth if rural people are to share fully in the benefits of that growth.

Ecology, history and development: a perspective from rural Southeast Asia

The process by which different ecological conditions and historical trajectories interacted to create different social and cultural systems resulted in major differences in economic development performance within Southeast Asia. In the late 19th century, Indonesia, the Philippines and Thailand commonly experienced vent-for-surplus development through exploitation of unused lands. Nevertheless, different agrarian structures were created. Indonesia’s development was mainly based on the exploitation of tropical rainforest under Dutch colonialism, resulting in the bifurcation of the rural sector between rice-farming peasant proprietors and large plantations for tropical export crops based on hired labour. In the Philippines, exploitation of the same resource base under Spanish rule resulted in pervasive landlessness among the rural population. Relatively homogeneous landowning peasants continued to dominate in Thailand, where delta plains that were suitable only for rice production formed the resource base for development. These different agrarian structures, associated with different social value systems, have accounted for differential development performance across the three economies in the recent three decades.

From agricultural modernisation to agri-food globalisation: the waning of national development in Thailand

Agriculture has been central to accounts of Thailand’s modernisation and the rise of the national development project between the 1940s and the 1970s. However, the role of agriculture in the waning of national development is rarely explored critically in the Thai context. This paper focuses on agriculture and the role of the state in the shift from national development to globalisation.
The first part of the paper examines the beginnings of Thailand’s modern agricultural sector, before turning to the state-sponsored diversification of agriculture in the 1950s. It locates shifting state responses to agriculture in the late 1950s and 1960s in the context of specific political and historical social forces, before exploring the emergence of agri-food exports in the 1970s and the rise of agribusiness in the 1980s and 1990s. The paper concludes by commenting on the significance of the Thai state’s role in the national development project and the globalisation project.

Coping with change: a study of local irrigation institutions in Taiwan

This paper examines how Taiwan’s local irrigation institutions have evolved and changed amid rapid political-economic development in the last decade. Based on the literatures of institutional analysis and common-pool resource management, the author discusses and compares how local irrigation institutions in three areas in the country have responded, or failed to respond, to the changing environment. A major finding is that local self-governing irrigation institutions are not doomed to fail amid economic development. Several variables affect the incentives and capacity of farmers to redesign their local institutions to cope with the changes in the macro setting. Particularly, flexible status quo institutions and a conductive governance regime can better facilitate farmers’ rule-crafting efforts.

Incentives and static and dynamic gains from market reform: rice production in Vietnam

This article develops a dynamic model to account for the enhanced incentive effects resulting from market reform through a move towards private property rights and competitive markets. Reform is captured through an emerging profits function which depends on effective prices and incentives to work harder. Static and dynamic output gains from reform are derived through increases in total factor productivity and induced capital accumulation. The model is applied to rice production in Vietnam over the period 1976–94. The more extensive is market reform, the larger the effects found on rice output, the capital stock and transitional growth rates, suggesting that incentives and more competitive markets matter greatly.

The insoluble internal conflicts of agricultural collectivization in Vietnam

Vietnam, like other communist states in the 20th century, embarked on a program of agricultural collectivisation to industrialise its economy and consolidate state power. The Vietnamese system of collectivisation produced insoluble internal conflicts that rendered it incapable of generating the increased agricultural productivity needed to provide an inexpensive surplus of capital for investment in industry. Despite several attempts of the Vietnamese Communist Party to reorganise both the form and the incentives of collectivised production, agricultural productivity remained low due to the misallocation of resources, inefficient utilisation of labour and the preference of Vietnamese farmers for the greater returns of private production for the free market. The use of everyday action by farmers to resist the state’s imposition of collectivised production played a critical role in causing the Vietnamese Communist Party to abandon collectivisation in the late 1980s.
730 — Mining and energy development

A study of sectoral energy consumption in Hong Kong (1984–97) with special emphasis on the household sector

This study consists of two major parts. The first part deals with the changes in the pattern of sectoral energy consumption from 1984 to 1997, when the sectoral share of industry plummeted from 33.2 per cent to 14.6 per cent, whereas the share of the commercial sector advanced from 20.0 per cent to 29.9 per cent, trailed by smaller rises in the transportation and household sectors. Three factors contributed to these developments: changes in the economic structure, that is, the decline in the role of manufacturing caused by the northward movement of industries into the mainland, and the accompanying rise in the role of tertiary activities; government policy and planning issues relating to the spatial development of Hong Kong; and the phenomenal improvements in living standards.

Chow, Larry Chuen-ho
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A time-series analysis of energy-related carbon emissions in Korea

Energy-related carbon emissions and their relationships with energy consumption and GNP in Korea are studied from 1961 to 1998. The ratio of carbon emissions to GNP is expressed as the product of the aggregate carbon factor and the energy intensity and changes in the aggregate carbon factor are decomposed into the impacts associated with the fuel carbon factor and the fuel mix, using the Divisia index approach. The analysis uses two sets of data, with and without wood consumption as an energy source, and very different results are obtained indicating that carbon emission studies for developing countries based on commercial energy consumption have to be interpreted with caution. The analysis also reveals that the impact of energy intensity on carbon emissions is greater than that of the aggregate carbon factor. This finding supports the assertion made in earlier studies that energy intensity is a more meaningful indicator than the aggregate carbon factor in the study of climate change resulting from energy-related emissions.

Choi, Ki-Hong and Ang, B.W.
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Impact of energy efficiency policy to productive efficiency of electricity distribution industry in the Philippines

The study analyses the productive efficiency and simulates the effect of the energy-efficiency policy on the productive efficiency of the electricity distribution industry in the Philippines, using data envelopment analysis. The study finds that the main source of technical inefficiency in the distribution utilities is scale inefficiency. Moreover, with electricity savings targets, the technical efficiency of the industry would slightly improve. Significant improvement of technical efficiency is furthermore found with system loss-reduction targets. The energy-efficiency policy that benefits the overall economy and whole electricity supply industry results also in productive efficiency improvement in the distribution sector of the industry.

Pacudan, Romeo and de Guzman, Elaine
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Aid, mining development and structural adjustment in Papua New Guinea

The economy of Papua New Guinea has gone through a series of external shocks, starting with the Bougainville war in 1989 and successive governments

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have responded to the ensuing crises with a series of structural reforms, the latest of which was implemented in 2000. This paper evaluates the combined macroeconomic impacts of aid flows, increased mining output and the structural reforms. The simulation results indicate that there is an increase in real output, exports and employment. However, there is a reduction in the output of services (education, health, and governmental administration and defence).

Rural household energy consumption with the economic development in China: stages and characteristic indices

This paper discusses variance of rural household energy consumption with the economic development in China. Energy shortages have long been a feature of rural areas of China. This paper analyses the rural household energy consumption of three typical regions—out of poverty, well off and rich—in terms of effective heat per capita per day, percentage of commercial energy consumption in total effective heat, electricity consumption per capita and room temperature of northern areas in winter.

Building government-donor co-ordination to implement forestry reforms

The article looks at the merits and otherwise of closer donor coordination, reviewing the experience in other countries and sectors. The authors also discuss recent steps towards closer donor collaboration in Indonesia’s forestry sector and possible options for the future. The article is intended to provoke further discussion on donor coordination, and as such draws only broad and impartial conclusions.

Foreign assistance and Indonesia’s forestry sector

Indonesia began to receive foreign assistance since the early 1980s and it intensified after 1992. After the economic crisis, forest management practices were greatly influenced by international agreements, for example, in the Letter of Intent between the government of Indonesia and the IMF and the commitments to the CGI in October 2000. Although international assistance has intensified during the past decade, there has been little impact in the national performance of the forestry sector. There is a need to review and institutionalise forestry strategy and policy, and redefine international collaboration to meet the demand of Indonesia rather than merely receiving donor-driven assistance.

Forestry developments with regard to decentralization

The reform era brought a new path to democracy, followed by the emergence of a shift from a centralised to a decentralised government. The problems with decentralisation in the forestry sector occur because of weak government; differences in vision, mission and strategic concepts between the central and local governments regarding the issues surrounding decentralisation; the lack of government regulations following the issuance of the new forestry law (Law 41/1999); the inadequate human resource capacity; the regional focus on


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Scotland, Neil and Purnama, Boen
DFID and Indonesian Ministry of Forestry

Setyarso, Agus
Yayasan WWF

Silver, Hutabarat
Ministry of Forestry–Indonesia
increasing revenues; the difficulty in managing cross-border forests; and the lack of understanding of the principles of sustainable forestry management. Decentralisation in forestry can only be successful if the regional autonomy is implemented in stages; there is a fair share between forest-rich districts and forest-poor districts; and if the central government facilitates the process of developing the National Forest Program.

**Forestry management in the era of regional autonomy**

The lack of sustainable forest management practices to secure forest resources belies the significant contribution of the forestry sector to the national economy. The forest area is increasingly diminishing, while timber plantation developments do not match with the rapid expansion of the pulp and paper industry. There are four basic factors causing the bad performance of forestry management: insecure property rights; the incapability of monitoring and implementing the rule of law; the low professionalism in managing the forests; and the centralisation of forestry management. The successful implementation of regional forestry management depends on how regional governments handle those four issues. The required policy change depends very much on a change from a mechanistic to an ecological paradigm. The stakeholders’ forum could provide the context in which such a change could take place.

**Forests as strategic assets**

Forests have provided a vital resource base for the Indonesian economy. However, short-term economic interests have threatened the existence of forests as a resource base due to exploitation, which undermines the long-term ecological and social benefits that forests may offer. The current rapid rate of deforestation—compounded by the economic crisis—makes it imperative to re-think the overall development strategy in terms of emphasising the links between human, economic and environmental security. The article also summarises current ongoing CSIS research on forestry issues including the impact of the crisis on regulatory and institutional developments in the forestry sector; a quantitative and qualitative analysis of the crisis on the forestry sector; the links between property regimes and economic incentives in adopting sustainable forest management principles; and the decentralisation process in forestry management.

**Government-donors interaction in Indonesian forestry**

The article describes the process of institutionalising government-donor cooperation in developing and implementing an integrated national forest program and to enhance inter-agency cooperation. Three bodies have been established to achieve these targets: the Inter-Departmental Committee on Forests (IDCF), the Working Group for Coordinating the Implementation of the National Forest Program (NFP) and the Donor Forum on Forestry. Critical points about the effectiveness of those bodies, and negative and positive current policy achievements and developments in the field are discussed. The article proposes several priority measures that need to be undertaken: a high-level joint political statement of the main decision-makers in the country (the President, Vice-President, DPR and MPR); rigorous implementation of the rule of law; promoting further the role of the IDCF as the main coordinating instrument for the NFP; and continued policy dialogue.
**Indonesian forestry from the World Bank’s point of view**

Indonesia needs a new approach to managing its forests, developed with participation of all stakeholders. This article lists several causes of deforestation including excess wood-processing capacity, undervaluation of forests, official corruption, failure of governance and the rule of law, and estrangement of forest communities because of the failing past government policies. The author describes the World Bank’s role in providing policy inputs to the reform agenda in the forestry sector, such as its activity in coordinating the interaction between CGI donors and the government of Indonesia. The Government of Indonesia has recently been more receptive to advice on forest policies and showed political will to address the difficult issues such as illegal logging and corruption. These are encouraging developments that could pave the way for additional forest management assistance in the future.

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**The implementation of decentralization in the forestry sector within the framework of sustainable forest management in the district of Kutai Kertanegara**

The importance of setting a pre-condition for forestry management in facing regional autonomy is emphasised in this study. Focusing on the district of Kutai Kertanegara, several important ecological, social and economic benefits of sustainable forestry management are discussed. The article describes the process of decentralisation in the forestry sector since 1995 and concludes with a discussion of four alternative forest management systems.

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**Capacity building in the marine sector in the Pacific islands: the role of the University of the South Pacific's Marine Studies Programme**

Capacity building in the marine sector is a priority for Pacific island nations, which face major challenges in the sustainable management of their marine resources under UNCLOS III and the various Conventions and Agreements stemming from UNCED. The University of the South Pacific has taken up this challenge through the establishment of its Marine Studies Programme. The breadth of the program’s activities ranges from awareness raising at the village level to post-graduate research in marine science. The substantial regional and international cooperation, research and training involved in these endeavours require the University of the South Pacific to respond to the need for building capacity in the marine sector through education, training and research.

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**Theory, practice and lessons drawn from other countries and the development of Chinese economics: using research on the theory of the industrial structure as an example**

This article evaluates the status and evolution of theoretical studies on China, the theory of industrial structure is relatively significant. The question of the industrial structure has always been a focal point in economic construction and theoretical studies. The question of the production structure remains distant from ideology, and research in this area and its theoretical evolution can be examined and appraised from an academic perspective. The author offers a brief review of the evolution of research on the theory of the industrial structure since the founding of New China.
750 — Service industries (transport, communications, tourism)

**Configuring new tourism space: exploring Singapore’s regional tourism forays**

Chang, T.C.
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The concept of ‘regional tourism’ has gained salience in Asia since the 1990s. The traditional practice of single-country tourism development is increasingly complemented by cross-border collaborations in planning and promotion. Through these transnational practices, new tourism spaces are being configured with region-states emerging alongside nation-states. This paper explores the concept of Asian regional tourism from the perspective of Singapore. As a city-state with scarce land resources, Singapore has turned to regionalism (or ‘regionalisation’) to overcome its spatial constraints, and to stimulate its tourism industry. Regional tourism takes a number of distinct spatial configurations, as exemplified by the case of Singapore, and while tourism regionalisation brings manifold opportunities to a small country such as Singapore, it also generates new challenges. Political sensitivities within Asia, incompatible working styles between societies and cultural differences emerge when countries interact with each other.

800 — Population, labour, labour force

810 — Population and population policy

**The North Korean famine and its demographic impact**

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The North Korean famine began in 1995 and its ill effects, while peaking in the late 1990s, undoubtedly linger. Recent conjectures on deaths caused by the famine range widely from about 200,000 to three million or more. This article assesses the demographic impact of the famine and describes the unique setting in which the famine occurred. The analysis begins with a pair of population projections based on mortality statistics from two sources. Given their contradictory implications, the analysis turns to less direct evidence of famine-related mortality. That evidence includes China’s demographic experience during the Great Leap Forward and recent measurements of child malnutrition in North Korea. Cross-country comparisons translate this malnutrition into corresponding levels of infant mortality. The article concludes that famine-related deaths in North Korea from 1995–2000 most likely numbered between 600,000 and one million.

**Rural population growth in Papua New Guinea between 1980 and 1990**

Rural population growth in Papua New Guinea between the 1980 and 1990 National Population Censuses has been mapped at the census-division level. Some areas of the country, including parts of the highlands and peri-urban census divisions, experienced rapid growth over the ten-year period. It appears that processes of change that may have common socioeconomic precursors and attributes are taking place in various parts of the country. In these areas, the implications for future sustainability of village-based food production and cash cropping systems require further investigation.

810 PNG
Implications of economic reform and spatial mobility for fertility in Vietnam

Vietnam has registered a dramatic decline in fertility during the last decades. While the causes of such a sustained decline are still not well documented, many observers believe that government policies adopted in the 1980s have contributed to lower fertility. This article focuses on the implications of the doi moi program of market reforms on fertility, taking into account the influences of migration and population policy. The analysis is based on a sequential logit model of birth histories of ever married women interviewed in Vietnam in 1997. The results show a substantial decline in fertility since the doi moi program was introduced. The disruptive effects of migration are less pronounced, although migrants generally exhibit lower childbearing rates, and a somewhat different pattern of parity progression. The authors argue that the economic reforms of 1986, and the two-child policy initiated two years later, have reinforced Vietnamese women’s desire for smaller families.

Beyond labour market flexibility: issues and options for post-crisis Indonesia

This article argues that the notion of labour market flexibility represents an inadequate framework for understanding the challenges faced by a democratic Indonesia in the post-crisis period. Such challenges entail the need to nourish employment-intensive recovery, developing a credible and cordial industrial relations system, and empowering workers to cope with the problems of vulnerability and risk that are inherent in any globally oriented market economy. The uncritical embrace of labour market flexibility in the pre-crisis period overlooked some inherent problems, such as the failure to develop a coherent industrial relations system. Although labour market flexibility helped prevent a sharp rise in unemployment during the economic crisis, the drop in real wages strengthens the case for government interventions in dealing with adverse labour market outcomes.

Efficiency wages and work incentives in urban and rural China

This paper examines incentive-wage effects for production and for managerial/technical workers in both urban and rural Chinese non-agricultural enterprises. There is strong evidence of productivity-enhancing wage behaviour among enterprises in all ownership categories and also that firms paying higher efficiency wages experience less shirking among their employees. The profit-maximising potential of incentive-wage setting is not fully exploited, although there is weak evidence that joint ventures come closer to profit-maximising behaviour at this margin of wage/employment behaviour than do collectives or state-owned enterprises.

Employee responsibilities and rights in China

This paper addresses issues related to tacit aspects of the generic employment contracts, determining the basic employee rights and responsibilities, in the Chinese cultural context. Using the contributions-inducements theory, first proposed by Barnard, and later elaborated by Simon and others, the authors argue that the relative importance of various employee responsibilities and
rights as perceived by Chinese workers are determined by both the central characteristics of the Chinese cultural and individual differences. A survey was conducted with 230 Chinese employees who worked for six different state enterprises in the Shanghai metropolitan area with the purpose of identifying their key conceptions about employee rights and responsibilities. Their value systems were found to be highly similar to Western employees with regard to the reward system, work ethics and competition-cooperation. On issues related to policies and rules, interpersonal relations and work skills, however, strong influences of the Chinese culture and the deeply entrenched socialist ideology are noted. Significant effects of the educational level, managerial role and gender were also noted, but they generally confirm the conventional wisdom of culture-free research.

Off-farm jobs and on-farm work in periods of boom and bust in rural China

This article describes labour shifts in response to China’s cycles of boom and bust and explores the farmer’s decision to enter or exit the off-farm labour force. Using their own household data set, the authors present evidence that the agricultural sector has played an important stability-increasing role in the nation’s development in the reform era. When layoffs increased and hiring slowed in the early 1990s, those who lost their jobs returned to the agricultural sector. Increased labour use in agriculture has reduced the income fluctuations that would have occurred if there had been no on-farm work available.

The two-tier labour market in urban China: occupational segregation and wage differentials between urban residents and rural migrants in Shanghai

China had separate rural and urban labour markets for about 40 years until the late 1980s when the restrictions on rural–urban migration were gradually eased. By the end of the 1980s and in the early 1990s, the number of rural migrants working in the urban areas began to increase dramatically. However, rural migrants are treated differently from their urban counterparts in terms of occupational attainment and wages. This paper uses two comparable survey data sets to analyse the degree to which the segregation between rural migrants and urban residents has occurred from the point of view of occupational segregation and wage differentials. A significant difference in occupational attainment and wages exists between rural migrants and urban residents. Most of the difference cannot be explained by productivity-related differences between the two groups, implying that urban residents are favorably treated while their migrant counterparts are discriminated against.

Equalization effects of the expansion of labor-intensive exports: the case of Taiwan

The periods of declining inequality in fast-growing Asian economies including Japan, Hong Kong, Singapore, Taiwan, Korea and Malaysia coincided with periods of rapid expansion of labour-intensive exports and the accompanying rise in employment. An investigation of the specific case of Taiwan in the post-war era further revealed that for both 1966 and 1976, wage disparities could be largely accounted for by the different premiums attached to skills, which reflected the individual characteristics of workers. Between 1966 and 1976,
narrowing disparities in the premiums attached to different education levels account for the largest part of the changes in wage inequality. It was found that this phenomenon was mainly due to the rapid expansion of employment by the export-oriented, unskilled-labour intensive industries that exhausted surplus labour. The Taiwan case suggests the possibility of the absence of trade-off between low-skilled labour-intensive industrialisation and decreasing income inequality.

**The impact of advanced technology adoption on wage structures: evidence from Taiwan manufacturing firms**

This article examines the impact of advanced technology adoption on wage and employment structures in Taiwan. Using a survey of manufacturing firms that provides direct information on the use of advanced technologies, firms using more advanced technologies are found to pay higher wages to both non-production and production workers and employ higher fractions of non-production workers. Controlling for the possible endogeneity of technology adoption suggests that the estimated impact of new technologies on wages is downward-biased and that the effect on production workers’ wages may be minimal.

**Worker turnover and job reallocation in Taiwanese manufacturing**

The paper examines time-series patterns of job and worker flows in a newly industrialising economy. Using plant-level data from the Taiwan manufacturing sector, the cyclical behaviour of job reallocation and its relation with worker turnover is analysed. It is found that job reallocation and labour turnover are procyclical, at both the aggregate and (two-digit) industry levels. The share of worker turnover caused by gross job reallocation (17 per cent) suggests that the majority of observed worker turnover reflects rotations of positions that are neither created or destroyed. There is substantial heterogeneity in plant-specific job and worker turnover patterns. Job creation and job destruction rates are higher among small plants and private-sector plants. The private plants are more dynamic than public plants in terms of worker turnover. Controlling for year and industry effects, it is found that job creation and worker turnover are both higher in export-oriented industries.

**Ownership change and reshaping of employment relations in China: a study of two manufacturing companies**

The need for China to survive and to compete in the rapidly globalising world economy has never been so compelling as in the past decade. Reforming state-owned enterprises has thus been at the top of the Chinese government’s agenda since the mid-1990s. This has led to the emergence of new patterns of enterprise ownership and consequently new employment relations that are distinctively different from those in the traditional state-owned enterprises. This paper explores the ways key elements of employment relations may have changed as a result of ownership change; why the trade unions have failed to perform adequately, and what the impact has been on workers of the new form of employment relations. In this paper, ‘employment relations’ includes a
broad range of issues which fall within the scope of analysis of both traditional fields of industrial relations and human resource management. In particular, aspects of employment relations such as recruitment, pay, training, work reorganisation and the role of the trade unions are explored.

840 — Human capital, training and education

*Technical assistance and capacity development in an aid-dependent economy: the experience of Cambodia*

To what extent can external technical assistance develop the capacity of counterparts, whether in government or in local non-government organisations in an aid-dependent economy? Cambodia’s experience since 1993 suggests that most projects in such a situation are donor-driven in their identification, design and implementation, to the detriment of capacity development. Connected with this is the chronic underfunding of government, hindering implementation of projects and threatening post-project financial sustainability. Unless donors develop a coherent strategy (rather than competitive, project-related salary supplementation) to deal with this situation, the record of technical assistance in developing capacity will continue to be disappointing, and an escape from aid dependence will be postponed.

840 C

*National systems of economic learning: the case of technology diffusion management in East Asia*

This paper presents a model of technology diffusion management, couched in terms of the strategic goals of the process, the pathways of diffusion, the dynamics of the process and the institutional vehicles involved. It examines the limits to applicability of such an approach to industry creation, and the uptake of technology leverage processes in advanced environments, in conditions of rapid technological change, or 'hypercompetition'. This paper draws on these ideas to develop the notion of a 'national system of economic learning' where the focus is on technology diffusion management, in contrast to the conventional notion of a 'national system of innovation'.

840 EA

*The fading productivity of schooling in East Asia*

This article estimates changes in the productivity of schooling for six East Asian countries with a productivity measure based on changes in the relative price of schooling. A rising price of schooling relative to other labour-intensive service sectors should indicate declining relative schooling productivity. The price of schooling increased by more than the price of other labour-intensive services in 1980 to 1994 and the cognitive achievement of pupils did not change substantially, suggesting a constant quality of schooling output. The article concludes that schooling productivity in East Asian countries has declined, the main reason being a strong decline in the pupil–teacher ratio.
The impact of globalization on HRM: the case of South Korea

Globalisation can have far-reaching implications for human resource management (HRM) and management practice in general. For some, globalisation creates pressures for a common, often taken as ‘best’, transferable set of HRM practices that can spread around the world. These best practices are considered powerful enough to over-ride existing systems. In contrast, others see nationally based human resource management systems as more resilient, partly because of the systemic underpinnings of particular cultural and institutional milieu. This article analyses both views and examines the case of human resource management in South Korea to demonstrate the issues, contradictions and dilemmas so that practitioners can make informed choices concerning human resource management practices to develop competency-enhancing systems.

Transforming human resource management in a Korean chaebol: a case study of Samsung

This article discusses the evolution of human resource management (HRM) practices and trends in the Korean chaebols. It explains in detail the causes of the HRM transformation at Samsung in the early 1990s, focusing in particular on employee selection, performance appraisal, grading and promotion, and pay systems. Finally, it discusses how the emerging HRM structures and systems fared during the recent economic crisis and their prospects for the near future.

Korean companies in China: strategies in the localization of management

This article examines the human resource management strategies of selected Korean companies in China. With long-term commitment to localisation of management, a division of labour is emerging, as responsibility for decision-making is increasingly devolved by headquarters in Korea to Chinese managers. Corporate structure and culture are being adapted to a Chinese environment. The creation of a Chinese management cadre necessarily brings into focus the recruitment, appraisal and promotion of local employees. It is concluded, however, that such localisation has its costs, as Chinese government social insurance legislation and trade union organisation impact on Korean companies committed to a long-term presence in Chinese markets.

An assessment of science and technology policies in the Philippines

This paper analyses research and development expenditures in the Philippines and the institutional arrangement for research and development coordination between the government and the private sector. The proper role of government in the science and technology sector is to: foster cooperation among government, academe and industry; establish competitive science and research funding mechanisms; promote the development of science and technology labour; and establish a system to monitor, assess and forecast technology. However, there is a need to strengthen science and technology education at the elementary and secondary school level to support an expansion of science and engineering enrolment at the tertiary level. This requires an upgrading of laboratory facilities
and equipment, as well as the hiring of qualified faculty. Finally, weaknesses in the planning, budgeting and implementing processes must be addressed.

**Long-distance commuting and national human resource development: evidence from Papua New Guinea**

The international human resource management literature generally focuses on human resource development for expatriate employees. This article investigates on-the-job skills transfer from international to national employees, using survey evidence from employees who are engaged in remote-area mining and hydrocarbon projects in Papua New Guinea and whose employment involves long-distance commuting. The choice of long-distance commuting in employment arises from complex economic, cultural and human resource management considerations. The survey evidence shows these employment practices to be consistent with on-the-job skills transfer from international to national employees—and thus to be consistent with the promotion of national human resource development.

**Comparing innovation systems: a framework and application to China’s transitional context**

This paper proposes a generic framework for analysing innovation systems, anchored around five fundamental activities—research and development, implementation, end-use, education and linkage—and focused on the performance implications of a system’s structure and dynamics. Rather than simply describing the role and performance of particular actors, institutions and policies, this approach focuses on system-level characteristics, including the distribution of these activities within the system, the organisational boundaries around them, coordination mechanisms, evolutionary processes, and the effectiveness of the system in introducing, diffusing and exploiting technological innovations. The framework is applied to a comparison of China’s national innovation system under central planning and since reforms, revealing the evolving structure and dynamics of this system and current inconsistencies and perverse incentives that policymakers must address to realise their development goals. More generally, it provides a basis for addressing the implicit assumptions of organisational types, roles and convergence among innovation systems emerging in very different contexts, whether national, regional or industrial.

**Educational stratification by ethnicity in China: enrolment and attainment in the early reform years**

Using evidence about educational disparities, this article demonstrates the need for attention to minority populations in studies of social stratification in China. Analyses of data from a 1992 survey of children demonstrate substantial ethnic differences in enrolment among rural 7–14 year olds, with rates for ethnic Chinese boys roughly double those for girls from certain ethnic groups. Multivariate analyses indicate that the ethnic gap can be attributed, in part, to compositional differences in geographic location of residence and socioeconomic background. There is no general tendency of a greater gender gap for minorities than for the ethnic Chinese, but significant differences in the gender gap emerge across individual ethnic groups. Together with evidence from census data showing that ethnic disparities in junior high school transitions
increased between 1982 and 1990, these results stress the continuing significance of ethnicity as a fundamental factor that conditions status attainment opportunities in China.

840 PRC

Learning, combinative capabilities and innovation in developing countries: the case of video compact disc (VCD) and agricultural vehicles in China

This paper argues that, due to the change of market structure, the recombining of the existing knowledge base and the quick accumulation of economic and industrial experiences at the firm level, the trajectory of technology development in China could well be different from those observed in other countries. In the age of integration, as defined by the progress of information and communication technologies as well as the globalisation of the world economy, a new paradigm of technology development may emerge in large developing countries such as China.

Gao, Shi-Ji and Xu, Gang
Institute of Economic System and Management

840 PRC

Leveraging multinational corporations, fostering technopreneurship: the changing role of S&T policy in Singapore

Since political independence in 1965, Singapore has achieved remarkable economic growth through continuous industrial restructuring and technological upgrading. This paper presents a framework suitable for analysing the national innovation system of small, late-industrialising economies, and applies it to examine how Singapore’s national innovation system has transformed over the years, and how public science and technology policy has changed in response to the changing needs of the innovation system. In particular, it highlights four generic stages in the evolution of Singapore’s national innovation system, with the emphasis of public science and technology policy shifting from assimilation and diffusion of technology through leveraging foreign multinational corporations to include an increasing focus on promoting indigenous research and development and ‘techopreneurial’ start-ups in recent years. Implications from the analysis for Singapore’s future public science and technology policy challenges are discussed.

Wong, Poh Kam
National University of Singapore

840 S

The future of skill formation in Singapore

This article examines the issues, challenges and prospects for ‘high’ skill formation in a context of economic globalisation, technological change and the fallout from the Asian financial crisis. This crisis led many Western commentators to predict a global convergence based on a shareholder model of market capitalism. Such a convergence is also predicated on the view that global economic integration would mark the death knell of the ‘developmental’ state. Given that Singapore relies heavily on attracting inward investment from multinational corporations, accounting for approximately two-thirds of employment, the authors expected to find a significant reduction in the role of the state in skill formation and economic development. This article shows that this has not happened but that Singapore confronts a number of key ‘pressure points’ that it will not be easy for this city-state to resolve.

Brown, Phillip and Lauder, Hugh
Cardiff University and University of Bath

840 S
**Distribution of income and expansion of education in some East Asian countries**

This paper examines the trends in income inequality in Singapore during 1974–99 using Labour Force Survey data and finds that income inequality in Singapore is high. It investigates the Singapore government’s efforts in bringing about equality in educational opportunity and examines the relationship between inequality and poverty in Malaysia, Indonesia and Thailand. Governments’ efforts in these three countries in bringing social justice through enhancing educational opportunities are examined on a comparative basis.

*Mukhopadhaya, Pundarik*
National University of Singapore


**The future of science and technology in Southeast Asia**

The recent economic turmoil in Southeast Asia highlights the lack of sustainability of the development paths of many countries in this region. While much of the blame can be laid on the weak financial infrastructure and poor corporate governance, one of the root causes for the lack of development sustainability is a deficiency in the innovative capability based on science and technology for the necessary economic transitions. The future of these countries is therefore intimately linked with the future of their science and technology. A balanced development is required, with emphasis placed on niche areas where these countries have strategic advantages.

*Yuthavong, Yongyuth*
National Science and Technology Development Agency


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**850 — Migration**

**Structural change, economic crisis and international labour migration in East Asia**

Increased international labour migration was an important dimension of structural change and globalisation in East Asia from the mid-1980s. Large international movements of mainly unskilled contract labour occurred in response to widening wage gaps between more and less developed countries in the region as the former experienced rapid structural change. Labour-importing countries increasingly relied on unskilled migrant workers in less preferred jobs, in both export-oriented and non-tradable goods industries. The Asian economic crisis dramatically influenced the context in which international labour mobility had occurred in the pre-crisis period. Important issues included a possible reversal in the role of international migration in structural change, both among unskilled contract workers and more skilled migrants, and replacement of migrants by unemployed local workers. This paper argues that the Asian economic crisis did not reverse the trend towards greater reliance on unskilled migrant workers in agriculture, manufacturing and service industries. Business and professional migration remained significant and even rose in some countries during the crisis. However, several countries were forced to develop a more coherent policy towards migrant workers, in light of the social impact of the crisis.

*Manning, Chris*
The Australian National University


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**Bangladeshi migrant workers in Malaysia’s construction sector**

Based on a study examining foreign labour in the Malaysian construction industry, this article elaborates on the factors that have led to the positioning of workers from Bangladesh in the local construction labour market. The interplay

*Abdul-Rashid, Abdul-Aziz*
Universiti Sains Malaysia
of work attitudes, skills and level of communication with the local parties and even nationality were found to account for the segmentation of the Bangladeshis vis-à-vis other foreign nationals. The viewpoints of the Bangladeshis surrounding labour treatment are also addressed to provide balance to the discussion. The article concludes with a set of recommendations for the authorities in Bangladesh to consider in order to improve the welfare of future construction migrants to Malaysia.

Globalisation of Asian migrant labour: the Philippine–Japan connection

Since the 1970s a global restructuring of production and investment has seen a movement of capital from industrial centres to countries with cheaper labour. Such corporate strategies seek to enhance profits by circumventing unionised labour and making use of flexible employment arrangements. These developments, however, have not only involved a flow of capital, but also cross-border movements of labour. Asian countries are increasingly internationalised by trade and investment interdependence, such that they are creating transnational space for the circulation of goods and capital and, increasingly, of people. In addition, a form of global governance has emerged through the development of a new tier of global administration through the expansion of the power of multilateral institutions such as the WTO, the World Bank and others, so that national governments and businesses are increasingly answerable to these institutions. Likewise, national policies are often brought into line with policies of global institutions.

Reconstituting the rural–urban divide: peasant migration and the rise of ‘orderly migration’ in contemporary China

The dramatic rise in China’s rural–urban migration in recent years represents a sharp contrast to earlier decades when population movement was limited due to strict government control. This paper first traces the historical institutional conditions that prevented large-scale rural–urban migration in the 1960s and 1970s. It focuses on three interlocking mechanisms of control—urban employment policy, food rationing and household registration—and explains the rationale behind these policies and their evolution into a system inhibiting peasant migration. The author analyses the decline of these old institutions during the reform. The breakdown of these institutions, however, does not warrant the conclusion that the Chinese state has been sidelined in the migration process. By way of examining the rise of ‘orderly migration’ in recent years, the author shows that the Chinese state is deeply involved in the migration process. The author argues that ‘orderly migration’ represents an attempt by the state to reconstitute the historic rural–urban divide in a new setting.

The age of migration in China

Using data from the 1987 and 1995 China One Percent Population Sample Surveys, this article examines migration patterns from 1982–95, a period of sweeping social and economic change in China. Several major patterns are evident: the increase in overall migration, especially in temporary migration, the increasing importance of inter-provincial migration, and the concentration of migrants in the coastal region. Over time, migrants of rural origin were more likely to choose cities than towns as destinations. The consequences and implications of the changes in migration patterns are explored.
900 — Income distribution and social welfare

910 — Income distribution

*Changes in regional inequality in rural China: decomposing the Gini index by income sources*

A new method is proposed to decompose inequality changes as measured by the Gini index into structural effects, real inequality effects and interactive effects. Application of the method to updated Chinese data reveals that structural effects represent the driving force underlying the increasing trend in regional income inequality in rural China. Policy implications are explored. In addition to these contributions, considerable efforts are made to construct the income data used in the article. Pitfalls in measuring income inequality in rural China are discussed.

Wan, Guang Hua
University of Sydney

910 PRC

920 — Health and social welfare

*Coverage and targeting in the Indonesian social safety net programmes*

The social safety net programs, which were created by the Government of Indonesia in early 1998, are intended to help protect both the traditionally poor and those who have become the newly poor—due to the economic crisis—in coping with the impacts of the crisis. The objectives of the programs include: ensuring the availability of food at affordable prices; supplementing purchasing power through employment creation; and preserving access to critical social services, particularly health and education. This study indicates that in many cases the programs have not reached the specified target groups due to low coverage and loose targeting. The effectiveness of the programs varied across different programs and regions. The general conclusion from this study points to the need for improvements in the implementation of the programs, particularly in terms of targeting the beneficiaries of a particular program, and in raising coverage within the target groups.

Suryahadi, Asep; Suharso, Yusuf and Sumarto, Sudarno
Social Monitoring and Early Response Unit (SMERU) Research Institute

920 I

*Social protection via rice: the OPK rice subsidy program in Indonesia*

In the wake of the El Niño drought and during the first year of the monetary crisis, the Indonesian authorities launched a special market operation (OPK) program. Under OPK, poor families were provided access to 20 kilograms of rice each month at a subsidised price. The program was quickly scaled up to reach nearly a quarter of the population. This article assesses the cost-effectiveness of OPK and compares its benefits and costs using data from the first year of program operations. Costs include direct financial outlays and the shadow cost of labour and administratively priced inputs. Benefits include income transfer, and indirect multiplier, employment and nutritional effects. The results show that OPK transfers did convey significant economic and nutritional benefits to program recipients at a modest administrative cost, although some of the benefits were captured by non-target, food-secure groups.

Tabor, Steven R. and Sawit, Husein
Economic Management Services International and External Affairs and International Cooperation, BULOG–Jakarta
**Famine in North Korea: causes and cures**

A famine of unknown magnitude is underway in North Korea. A CGE model is used to analyse the impact of four recovery strategies: production; aid; trade; and reform oriented. It is found that only the trade and reform-centered strategies are likely to provide a sustainable solution to North Korea’s problems; not only minimum human needs but also the more ambitious normal human demand target for grains are met under both the narrower trade-oriented strategy and the broader reform strategy. While the combination of the entropy methods and the CGE framework impose a high degree of rigour on this analysis, this work is fairly speculative, and assumes that the government would permit the kinds of structural transformations revealed by the simulation.

**Drug trafficking and consumption in China: two case studies**

This article discusses the results of a study on drug trafficking and consumption in China, which has increased substantially in recent years. The research has been conducted from existing documentation at a national level and, at a local level, from field surveys in two towns: Guangzhou and Shenzhen in the Guangdong Province. It analyses the geographic, economic and sociological aspects of the phenomenon.

**Economic reform and social welfare: the Chinese perspective portrayed through a social survey in Shanghai**

This article provides a brief comparative analysis of China and East Europe in terms of their stark differences in approaching economic reform and social welfare. China had the benefit of learning, from the 1989 Tiananmen incident, of the undesirable social costs incurred by economic reform and adopted a pragmatic and gradualist approach towards economic reform. This article reports the findings of an attitude survey in Shanghai, which are compatible with the gradualist approach of the Chinese Government towards economic reform and social welfare. The survey finds that the Chinese in Shanghai positively rate economic reform in light of the benefits that it has brought about, but they are also aware of the resulting large income disparities. The article suggests that China’s economic reform has not transformed people’s beliefs in line with the market system; in general, they are in favour of a large role for the state in welfare and they themselves are not willing to shoulder heavier welfare responsibility. In conclusion, the article explains this mixed pattern of public perceptions and pinpoints the likely developmental trend of China’s welfare system.

**A probit analysis of development control: a Hong Kong case study of residential zones**

This paper uses a probit model to evaluate a total of 1,353 sets of cross-sectional development control (planning application) statistics not previously published for three classes of statutory residential zones in Hong Kong over a period of 24 years from 1975. As far as the selected zones are concerned, the findings refute the critical view that the Town Planning Board process in Hong Kong...
generates significant rent-seeking activities in favour of large developers. They also reject the official assertion that the decisions made by the Town Planning Board are independent of exogenous policy influence of government.

**The spatial pattern of land values in Jakarta**

Rapid urban development and globalisation have brought dynamic changes to large cities in the developing countries. Yet understanding of the changes has been handicapped by the lack of data and systematic attempts. By using the latest release of land-value data in Jakarta, this paper provides insights into the spatial structure of land values in a typical developing world metropolis. Land values vary drastically from one *kelurahan* to another, with most of the expensive land parcels in central Jakarta. However, in central Jakarta one could also easily find cheap land parcels whose values were lower than the lowest land values of some parcels in non-central regions of the city, reflecting the mixture of slums and skyscrapers in central Jakarta. Land values were not distributed evenly in the non-central regions. Rather, they were more expensive in west and south Jakarta than in north and east Jakarta. Spatial variables, especially distance to the central business district, were important in shaping land-value patterns in Jakarta, but the explanatory power of distance declined over time. The findings of this paper will not only be useful for an understanding of spatial land-value patterns in Asian cities, but will also be beneficial for investors and policy-makers in their decision-making processes.

**Full circle or spiralling out of control? State violence and the control of urbanisation in Papua New Guinea**

There is an administrative reluctance to recognise the permanency of urban settlement in Papua New Guinea. This reluctance, evident since the 1960s, has been characteristic of both the colonial and post-colonial administrations. Opposition to some facets of urbanisation continues today, despite growing population and land pressures in most rural areas and real problems of landlessness emerging in particular rural areas. Colonial control of urban populations has been replicated in contemporary times, often in a more draconian form. Eviction of urban settlers has been tied to issues of crime and urban respectability, and lingering perceptions that Melanesians should be rural residents. The growth of informal settlements and urbanisation are not seen as issues of urban planning, nor is the context of urban migration linked to socio-economic inequality, hence other forms of urban policy are largely absent. Strengthening alliances between landowners and the state (especially police and provincial administrations) have thus emphasised intra-urban inequality and hampered national development.

**China’s future economic regionalization**

This paper investigates China’s economic growth potentials and limitations up to 2020 and recommends a trend of economic regionalisation. A sustainable growing economy is a necessity for China’s future stability. The sustainability of the Chinese economy depends on its continued commitments to institutional reform and economic deregulation. China’s relaxation of government intervention in economic activities has led, and will continue to lead, China to decentralise its central governmental authority over economic planning and control. This will consequently stimulate the emergence of regional economies in mainland
China. In the next two decades, there will likely be ten regional economies with relatively independent industrial structures emerging in greater China (or the Chinese Economic Area of Hong Kong, Macao, Taiwan and the mainland) as a result of economic liberalisation and decentralisation.

Convergence of China’s regional incomes 1952–1997

This paper employs time series techniques, with or without a structural break, to investigate the question of China’s regional per capita income convergence. Results suggest that China’s regions, especially the eastern and the western regions, have converged to their own specific steady states over the past 40 years. The Gini coefficient, the ratio of per capita income between regions, and the coefficient of variation confirm these findings. The big shocks on the relative regional per capita income by allowing a time break are also identified.

On regional inequality and diverging clubs: a case study of contemporary China

The existence of geo-economic clubs must meet two conditions. First, per capita output within each club converges to a long-term stationary state. Second, per capita output between clubs diverges so that the rich become richer and the poor poorer. This paper proposes a production model to explain club divergence and uses both the unit root test and the decomposition of an inequality index to prove the existence of geo-economic clubs among the Chinese provinces based on real per capita GDP data from 1952–97. The results reflect a serious problem of regional inequality and growth divergence in contemporary China.

Urban householders’ assessment of the causes, responses and economic impact of the 1998 haze-related air pollution episode in Brunei Darussalam

This study was concerned with an assessment by urban householders of the causes, responses and the economic impact of the January–April 1998 haze-related air pollution episode in Brunei Darussalam (Brunei). It involved a sample survey of 102 householders in three randomly selected kampongs (villages) in Bandar Seri Begawan, the capital of Brunei. Respondents identified forest fires in the Kalimantan region of Indonesia as the foremost cause of the haze-related air pollution. The most important response during the period of haze-related air pollution was listening to broadcasts and messages pertaining to the pollution on the Brunei Government Television and Radio. Willingness to pay (WTP) for haze-related information was shown to be positively related to family income. Retirees were prepared to pay less for haze information than younger people, while those with asthma were prepared to pay more than those without the disease. WTP to a Public Haze Fund to prevent the occurrence of extreme haze-related air pollution, as experienced in 1998, generated an average bid of B$178 per respondent. This WTP was also positively related to family income and negatively to the age group of respondents.
Ecosystem appropriation by Hong Kong and its implications for sustainable development

Hong Kong supports seven million people on 120 square kilometres of built-up land, resulting in 58,000 people per square kilometre, one of the highest population densities in the world. This population depends on a continual supply of materials, energy and information to function, and these resources are mainly supplied from outside Hong Kong’s own geographical boundaries. The ecological footprint of Hong Kong due to its direct and indirect consumption of renewable resources and waste generation is presented. The article traces the spatial patterns of Hong Kong’s ecological footprint and examines the implications of this ecosystem appropriation. The study finds an ecological footprint for Hong Kong of about six hectares per capita, with the largest appropriation occurring for marine ecosystems. If the impacts of fish farming are included, Hong Kong appropriates a marine area nearly 2,000 times its own built-up city area. Current resource consumption and waste-generation patterns in Guangdong, China—where much of Hong Kong’s terrestrial ecosystem appropriation occurs—are also discussed.

Transboundary pollution in Southeast Asia: the Indonesian fires

Uncontrollable forest fires in Indonesia have caused much environmental damage in Southeast Asia with immediate countries such as Singapore, Malaysia, Brunei and even Southern Thailand bearing most of it. The intentional burning of forests has engendered a transboundary haze pollution problem with severe economic ramifications in both victim and perpetrator countries. This paper reviews the related issues and suggested policy responses from the different interdisciplinary perspectives. Identification and analysis by way of a ‘stakeholders approach’ to the possible sharing of costs in certain programs to combat the fires and haze is suggested and the role of economic incentives in managing forest fires is discussed.

Disaster mitigation and preparedness: the case of NGOs in the Philippines

The Philippines is very vulnerable to natural disasters because of its natural setting, as well as its socioeconomic, political and environmental context—especially its widespread poverty. The Philippines has a well-established institutional and legal framework for disaster management, including built-in mechanisms for participation of the people and non-government organisations in decision-making and program implementation. The nature and extent of collaboration with government in disaster preparedness and mitigation issues vary greatly according to their roots, either in past confrontation and political struggles or traditional charity activities. The growing non-government organisation involvement in disaster management has been influenced by this history. Some agencies work well with local government and there is an increasing trend for collaborative work in disaster mitigation and preparedness. Some non-government organisations, however, retain critical positions and tend to engage more in advocacy and legal support for communities facing increased risk because of development projects and environmental destruction. Entry points into disaster mitigation and preparedness vary as well. Development-oriented agencies are drawn into these issues when the community members with whom they work face disaster. Relief organisations, too, realise the need for community mobilisation, and are thus drawn towards development roles.
Ensuring health and safety in China operations

Along with China’s rapid economic growth over the past 20 years has come widespread pollution on a scale that has given rise to global concern. The central government is rapidly developing an international-standard body of laws on environmental issues. Enforcement of environmental laws, as with almost every area of Chinese law, is a challenge. Enforcement is less of an issue, however, with some of the largest foreign direct investors. Not only are these foreign investments in China among the highest profile commercial operations in the country, but their internal policies generally require that they establish the same environmental standards in China that they do at home. Discussions of how two large US companies—General Electric Co. and Corning Inc.—approach compliance with environmental standards in China are presented. A third profile, of Liberty Mutual’s occupational health and safety research centre in China, is an example of how foreign companies are bringing their special expertise to China.

Gelb, Catherine and Hulme, Virginia A.

Forest fires, air pollution, and mortality in Southeast Asia

The population health effects in Malaysia of air pollution from a widespread series of fires that occurred in Indonesia between April and November of 1997 are assessed. The objective is to uncover any mortality effects and to assess how large and important they were. The author also investigates whether the mortality effects were persistent or whether they represented a short-term, mortality-harvesting effect. The results show that the smoke haze from the fires had a deleterious effect on the health of the population in Malaysia.

Sastry, Narayan

Fuel taxes and the distribution of income in Taiwan

This study considers the carbon tax and the Btu (British thermal unit) tax in the specific context of carbon attachment for the Taiwanese economy. A carbon tax is imposed on primary energy according to the carbon content of the fossil fuels, while a Btu levy taxes primary energy based on the heat content of the fossil fuels. Both tax options cover all potential emissions sources. However, the Btu tax, as compared with the carbon tax, implied a lower tax on coal and a higher tax on natural gas, because energy per unit of carbon is relatively low for coal and relatively high for natural gas. This study investigates the distribution impacts of two policy options for reducing carbon emissions and analyses the potential effects of two policy options on the income distribution in a general equilibrium framework. Specifically, it examines the incidence of a fuel tax on the carbon content of fossil fuels and a fuel tax on the heat content of fossil fuels.

Yang, Hao-Yen
Shih-Hsin University

Housing provision under globalisation: a case study of Shanghai

Housing provision in China has undergone significant changes since economic reform. In the early stage of reform the objective was to solve the problems that are internal to the socialist economy, namely unrecoverable housing investment and housing shortages. Since the 1990s Chinese cities have seen increased foreign investment in real estate development and consequently experienced an unprecedented building boom. This paper examines the changes in housing

Wu, Fulong
University of Southampton
investment and highlights the dilemma of housing ‘commodification’ in the process of globalisation. Specifically, foreign investment contributed to initial capital formation in real estate development and more importantly helped to create a marketised housing segment. The buoyant market price demonstrated the profitability of real estate, thus attracting more capital into housing development. The combined effect of marketisation and globalisation has led to increasing social spatial differentiation and inadequate housing provision to marginal social groups.

**Housing tenure choice in transitional urban China: a multilevel analysis**

Using a 1996 national survey of housing in China and a multilevel modelling technique, this article examines housing tenure choice in transitional urban China where households have been granted limited freedom of choice in the housing market since the housing reforms of 1988. Both market mechanisms and institutional forces affect households’ tenure choice in urban China. While some socioeconomic factors such as age, household size, household income and housing price have similar effects on tenure choice as in the West, others such as the number of workers and marital status have rather different effects. In addition, factors characterising institutional relationships among the state, work units and households, such as hukou, job rank and work unit rank, still play important roles in tenure choice.

**Housing policy, wealth formation and the Singapore economy**

This paper evaluates the contribution of housing policy in Singapore to financial sector development, housing wealth formation and macroeconomic performance, both retrospectively and prospectively. It provides an overview of past housing policies and traces the linkages to the financial sector. Housing policy as effected through the Housing and Development Board and the Central Provident Fund (CPF) hampered the development of the commercial housing loans sector and domestic financial markets, but contributed to the overall growth and stability of the housing loans market and associated financial institutions. Housing policy and the trend of housing asset inflation contributed significantly to the formation of both gross and net housing wealth. Economic growth has not suffered from the heavy emphasis on housing investment although various policies that resulted in exogenous shifts in housing demand contributed to increased housing price volatility in the short term. The structure of the housing loans market has also allowed the CPF contribution rate to be more effectively used as an instrument for macroeconomic stabilisation.

**Ideologies of ‘upgrading’ in Singapore public housing: post-modern style, globalisation and class construction in the built environment**

Studies of Singapore public housing have tended to emphasise the ways in which urban planning and housing policies have contributed to rapid infrastructural development in the 1970s and 1980s while maintaining racial harmony and providing affordable housing to the majority of the population. In the 1990s, a series of ‘upgrading’ exercises in many Singapore Housing and Development Board estates have signalled a change in the status and function of public housing within Singapore’s project to position itself as a global city. These transformations in the built environment are part of a larger process of social
transformation, not merely in terms of housing policy, but also in terms of
issues of governance, class and social mobility and community and value systems.
The centrality of public housing in Singapore’s built environment, together
with the sensitivity of its relationship to social indicators of upward mobility,
make it a key indicator of the issues facing Singapore as it attempts to position
itself as a global city. In particular, the move from a ‘modern’ to ‘post-modern’
architectural style signals the government’s attempt at the same time to mark
Singapore’s arrival as a global city, to anticipate and manage social and eco-
nomic divides and to construct a possible space for increasing public input and expression.

950 S

Housing market bubbles and the currency crisis: the case of Thailand

This paper explains with a simple model the collapse of the housing market in
Thailand before the 1997 economic crisis. It shows that successive periods of
impressive growth of the economy created not only higher demands for housing,
but also an increase in people’s optimism about market conditions in the future.
Both oversupply and bubbles were formed before the market finally crashed.
The model explains some of these phenomena, and describes the nature of the
bubbles. An ironic possibility is that a faster and more persistent growth of the
economy tends to increase the vulnerability of the firms in the market.

950 T

960 — Women

Gender differences in wealth transfer and expenditure allocation:
evidence from the rural Philippines

This paper examines whether there is a gender bias in the intergenerational
transfer of land and schooling as well as in intra-household allocation of
expenditures. The authors found that among older children, sons are favoured
in the inheritance of land while daughters receive more schooling. The share of
expenditures for schooling for children of school age are found to be unaffected
by the gender composition of this age group. Overall, household expenditure
allocation and intergenerational transfers of wealth in the rural Philippines are
equitable.

960 P

Changing labor-force gender composition and male–female income
diversity in Singapore

This paper traces the employment trends by gender in various industries, occupa-
tional groups and educational levels in the city-state of Singapore. Over the
years, Singapore’s female labour force participation rate has increased as a
result of rising educational attainment. At the same time, income inequality
among females has increased, while male–female income inequality has
decreased. It explores the gender wage gap at various occupational and educa-
tional levels, and finds that the gender wage gap has been reduced over the
period from 1975–99. The paper also finds that because of a lack of sufficient
childcare facilities and unavailability of part-time work, women who leave the
labour market to start families face certain obstacles when trying to re-enter the
workforce.

960 S