A Conceptual Model of Global Business Growth in South East Asia

By

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Abstract:

The industrialisation of South East Asia (SE Asia) has been portrayed as a contagion spread of economic growth across the region as, like 'flying geese', SE Asian economies chose to follow the development patterns of their more successful Asian neighbours. This seemingly sequential development has implied that there is an identifiable 'Asian' model of economic growth. However, in review of the 'flying geese' theory of contagion economic development, it is suggested that the theory does not adequately explain SE Asia's economic growth, or its decline during the financial crisis of 1997-98. The thesis of this article is to suggest that SE Asia's growth was the direct result of transnational company (TNC) industrialisation and foreign investment. Asia's growth has essentially been dependent upon global commercial forces as much as regional and domestic opportunities. Accordingly, this study seeks to assess the impact of foreign business and foreign capital on SE Asia and propose an alternative explanation of development by way of a conceptual model of global business growth in SE Asia .

Introduction: A Crisis for Business

By 1995, Thailand's export growth had reached 23.6%. By the end of 1996, it had dropped to zero. The loss of export income and retraction in the economy put immediate pressure on Thailand's corporate ability to service its foreign debt – estimated at some $99bil at the end of 1996. In July 1997, with escalating foreign debt burdens, the Thai baht was devalued. (Song 1998:38) Yet, the financial and debt problems of Thailand were common across South East Asia (SE Asia),[1] and were to effect the whole region. October 20 –23, 1997, saw the Hong Kong Stock Market suffer a lose of 23% on its Hang Seng Index. The following day, October 24, saw the Hang Seng lose a further 10.4%. In the proceeding months the situation worsened. The Indonesian Rupiah fell 15% on January 5, 1998, and a further 18% on January 8. From September 1997 to January 1998, the Indonesia Rupiah fell from Rh3,500 to Rh19,000 to the US dollar, losing some 80% of its value in less than 6 months. At the same time, the Malaysian Ringgit and the Thai Baht dropped 55%. (Economist 1998:67)

In response to declining investment returns, institutional and then individual investors moved to withdraw their equities from SE Asian markets during the closing months of 1997. The rapid withdrawal of foreign funds had disastrous effects upon the banking sector as domestic panic set in and massive withdrawals of cash followed. Paul Krugman suggests that "to a first approximation currencies and exchange rates may have had little to do with it: the Asian story is really about a bubble in and subsequent collapse of asset values in general". (Krugman 1998a:3) Indeed, the SE Asian financial crisis revealed just

[1] South East Asia (SE Asia) is used here to denote the ASEAN economies, particularly the ASEAN-5 leading economies of Singapore, Indonesia, Thailand, Malaysia and the Philippines. East and South East

how dependent these economies had become upon foreign investment and foreign led industrialisation, and, at the same time, just how vulnerable Asia had become to global financial volatility.

The thesis of this article is that SE Asia's growth was the direct result of transnational corporation (TNC) industrialisation and foreign investment. It did not arise from a contagion spread of economic growth across the region as one economy chose to follow the programs and strategies of other more successful Asian neighbours. While there is an identifiable Asian 'way' of managing business, (Hofstede 1980; Whitley 1994; Redding 1997; Min 1995) SE Asian growth has not occurred by way of a distinctive 'Asian' model[2] divorced from global business initiative. An 'Asian' growth model is, alternatively, better understood by way of a model of 'global business growth' in SE Asia.

Purpose of the Study

The purpose of this study is to, first, review the 'flying geese' theory of contagion economic development as it applies to the SE Asian economies and to suggest that this theory does not adequately explain SE Asian economies growth, or decline. While the growth of SE Asian economies has been self evident, the primary cause of this growth, however, has been the development of export orientated industry by TNCs to service foreign markets. (Chow & Kellman 1993:5)

Asia (E&SE Asia) is used to refer to the wider region including Hong Kong, Taiwan, Korea, but usually excluding China and Japan which are referred to separately. 'Asia' refers to both South East and East Asia.
[2] The idea of an 'Asian' model has been used to denote a range of perspectives including: economic growth, an approach to capitalism, a distinctive cultural approach to business, and an approach to business management. While the notion of common 'Asian values', or Asian culture' is hard to sustain in the context of the diversity of SE Asia business culture, the term has often been used, by people such as Lee Kwan Yew of Singapore and Marhathir of Malaysia to denote a way of conducting business that contrasts with Western business management styles.

Second, in suggesting that SE Asia's development was primarily brought about by foreign business initiative this article presents, as an alternative to the flying geese theory, a conceptual model of 'global business growth' in SE Asia. Admittedly, the diversity and staged development of the various SE Asia economies. Yet, the degree of foreign business and foreign investment activity across the region suggests that global business interests have led SE Asia development over the past 30 years as these economies have liberalised their trade and financial regulation. (Lindbald 1997:69-73; Thompson 1998:97)

To this end, this study seeks to assess the impact of foreign business and foreign capital on SE Asia's growth and, by reviewing the literature, discuss the continued value of the global growth model for SE Asian development in the light of the financial crisis of 1997-1998.

One of the benefits of this study is to give an alternative understanding of SE Asian economic development to the flying geese theory and to demonstrate the important contribution exogenous factors have made to SE Asian growth. In proposing an alternative understanding of the business growth of SE Asia, this study also provides a theoretic explanation of the causes of the SE Asia's financial crisis, showing that these economies had been vulnerable to crisis for quite some time.

Review of the Flying Geese Theory.

The development of the East and South East Asian economies has already received much attention. (Singh 1998; Chow & Kellman 1993; Krugman 1998a & 1998b; Ramstetter 1998; Higgott 1998; Hatch & Yamamura 1996; Fields 1993; Dunning 1993&1995; Chen 1997; Linder 1986) In general, these studies agree that, first, there has been rapid economic development for the Asian economies. Second, that behind Japan's industrialisation, the economies of Hong Kong, Taiwan, South Korea and Singapore have appeared as a first-tier of 'newly industrialising economies' (NIEs)[3] with Malaysia, Indonesia and Thailand appearing as a second-tier, or 'near, or 'new' NIEs (NNIEs). And third, that this growth has been brought about by export orientated industrialisation. It is this appearance of 'staged' development that has given rise to the acceptance of a contagion spread, or flying geese theory.

The Japanese economist, Kaname Akamatsu, proposed the flying geese theory in the 1930s. (Akamatsu 1962) Essentially the theory is built on the notion of product life cycles and suggests that the life cycle of a particular industry can be followed by the trends in the value, or volume, of imports, production and exports. In a given industry, the level of imports is said to first rise and then decline, and this is followed by the same pattern in domestic production and then exports. (Chen 1997; Gangopadhyay 1998) When plotted against time, the level of imports, production and exports form patterns of inverted v-shaped curves across a graph giving the image of flying geese. When applied to international trade, the model depicts a shift of economic growth from more advanced economies to less advanced economies as industries develop.

Sachs and Radelet suggest that the development of the electronics industry in East and South East Asia depicts this model in action. In the 1970s, Hong Kong, Taiwan, South Korea, and then Singapore and Malaysia, began to compete furiously for footloose electronics firms. "The flying geese of East Asia caught the updraft of global electronics production, which has helped carry them through more than years of rapid economic growth" (Sachs & Radelet 1998:9) By 1975 East Asia employed approximately 95% of the world's offshore electronics assembly workers.

[3] The Newly Industrialising Economies are sometimes referred to as the Newly Industrialised Economies.

The original flying geese model proposed a pattern of industrial development, but as Sachs and Radelet demonstrate, this model has been used to describe changes in comparative advantages between the economies of East and South East Asia (E&SE Asia). This idea of the sequencing of the comparative development of economies has gained general acceptance as the process by which E&SE Asian economies developed. (Gangopadhyay 1998; Walton 1997; Herbig 1995; Hiley 1999; Chen 1998; Chiu & Lui 1998; Singh 1998) Mark Hiley suggests that; "The basic idea of the paradigm is that a developing country, in an open market context, industrialises and goes through industrial upgrading, step by step, by capitalising on the learning opportunities made available through its external relations with the more advanced world." (Hiley 1999:81) In accepting a natural order of progression, Gangopadhyay has previously gone as far as to suggest that by the year 2000, Malaysia and the Philippines would have become NIEs, and Thailand progressed to a mature NIE stage. (Gangopadhyay 1998:37) A condition not realised with the financial crisis.

While, the flying geese model may have had some significance for the early stages of NIE and NNIE development, it is questionable whether the flying geese model ever depicted the reality of E&SE Asian growth. The work of Chow and Kellman indicates that with the move from low technology to higher technology production, the pattern of following along behind a more developed economy breaks down for E&SE Asia. In the first instance, there appears to be little overlap of export production between the economies, but in the later stages of development, overlap and competition increases. (Chow & Kellman 1993:61) The assumption that economies will or need to move through low level technology production before initiating high technology production is flawed because of the growth of overlap and competition across regional industry sectors.

Still, a further problem exists in applying a product lifecycle theory to explain national economic development. It is no longer true that an industry is first established in an advance economy and then passes to a less advanced economy. (Baker & Goto 1998; Chen 1998) Global technological development and technology transfer now leads most markets. As an explanation of SE Asian development, the flying geese theory is simply out of date. Edward Chen suggests that: "Instead of a product life cycle, we should be speaking of a technological cycle in which industries are affected or created by new technologies and countries specialize in different industries and sub-sectors at different stages of their technological cycle." (Chen 1997:18)

The Characteristics of Triad TNCs in SE Asia

Characteristics	**Japanese TNCs**	**European TNCs**	**USA TNCs**
Number of TNCs	89	19	23
Mean Employment	7,200	46,500	52,300
Medium Employment	3,000	16,000	50,000
Three Most Common industries	Autos, Electonics, Metal Products	Telecoms, Petrochems, Speciality Chemicals	Telecoms, Petrochems, Speciality Chemicals

Source: ASEAN FDI Database:1999

Yet, just as fundamental, the idea of sequential development ignores the impetus of the TNCs in initiating the industrial development as market opportunities arose. As John Dunning points out TNCs have become one of the principle engines of growth and development across the world. (Dunning 1992 & 1993) This is certainly the case for SE Asia as TNCs have sought to gain from comparative advantages found in low labour cost manufacturing. While European (19) and American (23) TNCs operating in SE Asia in the early 1990s were mainly resource development focused, Japanese TNCs (89) had interests in autos, electronics and metal products. The degree of interest by the Triad (US, Europe and Japan) economies in SE Asia is also seen in their level of investments. In 1993,

European TNC foreign direct investment (FDI) for SE Asian amounted to $23bil, the US was $18.5bil and Japanese TNC – FDI reached $66bil (ASEAN 1999)
As an alternative to the theory of economy-driven growth, an appreciation of the importance of foreign trade to SE Asia's growth allows for a different model to be explored to better explain SE Asia's past and current developments.

The Global Context for Business Growth in South East Asia

For the decade preceding the crisis, annual GDP growth for the ASEAN-5 (Indonesia, Malaysia, Thailand, the Philippines and Singapore) averaged close to 8 percent. The IMF reports that during the previous 30 years to 1995, per capita income levels increased five fold for Thailand, and four fold in Malaysia. In Singapore, per capita levels reached those of some industrial countries. SE Asia had grown with outstanding export performance to become responsible for almost 20% of the world's exports by 1996. (Fischer 1998:1)
Through this growth, SE Asia became part of the world economy and accordingly part of the global financial system that supports it.

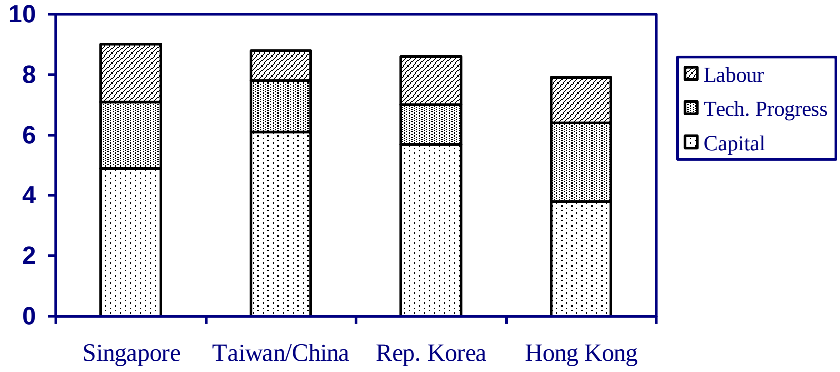
The influence of exogenous factors (development originating from without) and endogenous factors (influences from within) in bringing about this growth has been widely discussed (Eggleston 1997, Nelson & Pack 1997, Chen 1997, Dunning 1995, Ramstetter 1998, Krugman 1994) and continued from the time R.M. Solow proposed the dichotomy in 1956. (Solow 1970:3-9) Nelson and Pack in analysing the various theories for Asia's growth divide them into two schools of thought: The 'accumulation' theories and the 'assimilation' theories. While accumulation theories emphasise the role of capital investments, the assimilation theories in general emphasise the value of entreprenuership, innovation and learning.

However, Nelson and Park (1997) indicate that both schools of thought view capital investment (as an exogenous factor) as central to the explanation of Asian economic growth. In this vein, Akyuz et al, of UNCTAD, believe the inflow of capital is essential to growth and suggest: "In building up their industrial capacity and competitive strength, all newly industrialising countries must import a large volume of capital goods and intermediate goods." (Akyuz et al. 1998:43)

Certainly the work of Alwyn Young and Larry Lau, as further developed Paul Krugman and Nouriel Roubini, on the significance of input-driven capital growth has drawn attention to just how important foreign capital has been to E&SE Asia. (Krugman 1992:1, Roubini 1998:2) Krugman, in presenting the position, argues that, like the Soviet Union in the 1950s, Asian growth was achieved by massive mobilisation of capital and low cost labour: Input-driven growth.

<u>Factor Contributions to East Asian Economic Growth</u>

(Output growth as % per Year: 1960-1992)



Source: World Bank 1998

While the point was to suggest that Asia's productivity was hollow because there was insufficient technological development and innovation, their work highlights the role of foreign capital, [as an exogenous factor,] in E&SE Asia's growth. The proposal is supported by the fact that, as the World Bank estimates that from 1960 to 1992 capital accumulations in East Asia accounted for some 80% of the growth output per worker. (World Bank 1998) The conclusion, and an argument to be pursued here, is that the external environment and externally motivated growth factors have been the fundamental cause of SE Asia's growth.

Yet, seen from the viewpoint of business management, exogenous and endogenous factors are not mutually exclusive. Business growth occurs where opportunities arise. With an average GDP growth of 8% and export growth from 1985 to 1990 at over 220%, (IMF Directions in Trade Statistics 1999) investing in E&SE Asia in the early 1990s was extremely attractive. Slow economic growth in the US and falling yields in Japan provided the context for a wave of capital to flow into SE Asia in search of investment returns. In Thailand, for example, the total annual flow of foreign funds grew from 237 billion baht in 1992 to 516 billion baht in 1995. (Phongpachit 1998:100)

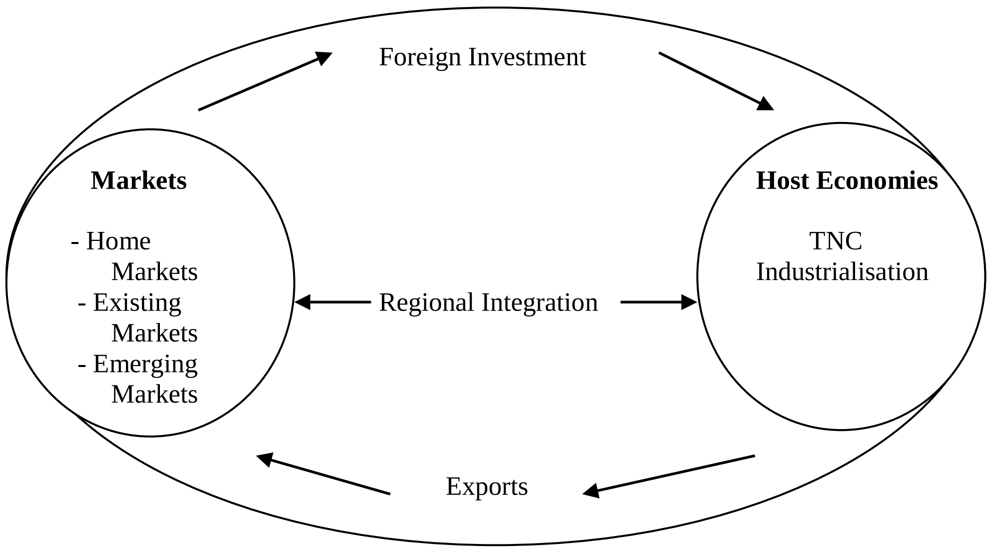
Conceptual Model of Global Business Growth in SE Asia.

SE Asia, like other developing regions, has been the object of foreign business interest for many years. (Dunning 1993, Ramstetter 1998; Hiley 1999) With the liberalisation of finance and trade restrictions among SE Asian economies and government efforts to attract foreign direct investment (FDI) and promote industrialisation, (Akyuz 1998:42, Goh 1998:171, Tamney 1996:8, Chow & Kellman 1993:6) SE Asia experienced a rapid increase in business activity in the 1980s and 1990s. This integration of business production with primarily the markets of Europe, the US and Japan. Akyuz et al. refer to this integration or dependency pattern as 'market-based industrialisation', and the 'export-investment nexus'. (Akyuz et al. 1998: 40-41)

By investing and locating in SE Asian economies to gain comparative production advantages, TNCs have developed export focused manufacturing as part of their market-production systems. Thus, a market-driven chain of causation linking foreign markets and SE Asian industrialisation came to dominate SE Asian development. While acknowledging that companies do not all act in the same manner, and that different opportunities across the SE Asian economies has resulted in different emphasise of industrialisation, general market-production integration patterns are observable. Accordingly, four features of a global business growth model are identified here: foreign investment, TNC industrialisation, export growth, and regional integration.

While there are other features that characterise the business environments of SE Asian economies, such as variations in demographics, government policy, economic policy and economic opportunity, these four features are common to foreign business growth in SE Asia. Of course, these features of business activity and growth in SE Asia, and particularly across E Asia, have already been extensively reviewed and analysed as independent and related economic factors. (Fields 1993, Dunning 1993 &1995, UNCTAD 1996, 1998a, Higgott 1998b, Ramstetter 1991) And certainly, when looked at separately, these features are found in other developing economies and regions. But, when looked at together, they express the dynamic and history of global business growth in SE Asian region.

Model of Global Business Growth in SE Asia: A Market Driven Model



Features of the Model.

i. Foreign Investment.

While the nature of international money flows and the speed at which money moves has changed, and changed the world economy in the process, the relationship between economic growth and investment capital has only become more apparent. Of particular significance is the steadily increasing flow of transnational money into SE Asia over the past 30 years.

From 1967, the worldwide stock of foreign direct investment (FDI) increased 33 times in 30 years to reach $3.5tril by 1997. (UNCTAD 1999:2) In 1998, worldwide flow of FDI amounted to $640bil (The Straits Times 1999:57) as economies increasingly realise the benefits for growth arising from foreign investment. This trend has included a rise in the stock of FDI for SE Asian economies from $25.2bil in 1980 to $168.8bil in 1995 - almost a 7 fold increase. In terms of FDI flow, UNTAD reports that SE Asian economies received a growth from $2.9bil in 1980 rising to $23bil in 1997. (UNCTAD 1999:2)

While the US and Europe have continued to be dominant contributors of FDI in Asia, Japanese investments have been increasing significant. On a worldwide scale Japanese FDI stocks have increased some 16 times from just $19bil in 1980 to $305bil in 1995, in parallel to US FDI rising some 3 times from $213bil in 1980 to $705bil in 1995. During this period, Japanese FDI in ASEAN remained at about 25% of all their FDI stock since 1980, in comparison with the US at 13% and Europe at 18%. As a general trend, E&SE Asia has experienced a rise in the proportion of world-wide FDI stock from 8% in 1985 to 15% in 1997. (UNCTAD 1996,1998)

Capital Flows
(US$billions)

	1995	1996	1997	1998	1999
Emerging Market Economies					
Net External Financing	269.8	332.4	299.5	194.0	174.4
Private Flows	228.9	327.7	262.8	143.3	140.9
FDI	81.3	93.3	116.1	120.4	103.3
Portfolio Equity	24.4	35.7	25.7	2.4	21.5
Private Creditors	123.1	198.7	121	20.4	16.1
Asia/Pacific					
Net External Financing	144.1	173.3	107.3	35.2	40.6
Private Flows	135.0	169.9	71.3	7.8	28.7
FDI	41.9	45.3	50.6	54.1	48.1
Portfolio Equity	14.2	19.1	6.0	4.9	7.4
Private Creditors	78.8	105.5	14.7	-51.1	-26.8
Five Asian Economies					

Net External Financing	83.0	99.0	28.3	-4.2	7.8
Private Flows	80.4	102.3	0.2	-27.6	0.3
FDI	4.2	4.7	5.9	9.5	12.5
Portfolio Equity	11.0	13.9	-1.5	4.3	6.0
Private Creditors	65.1	83.7	-4.2	-41.3	-18.2

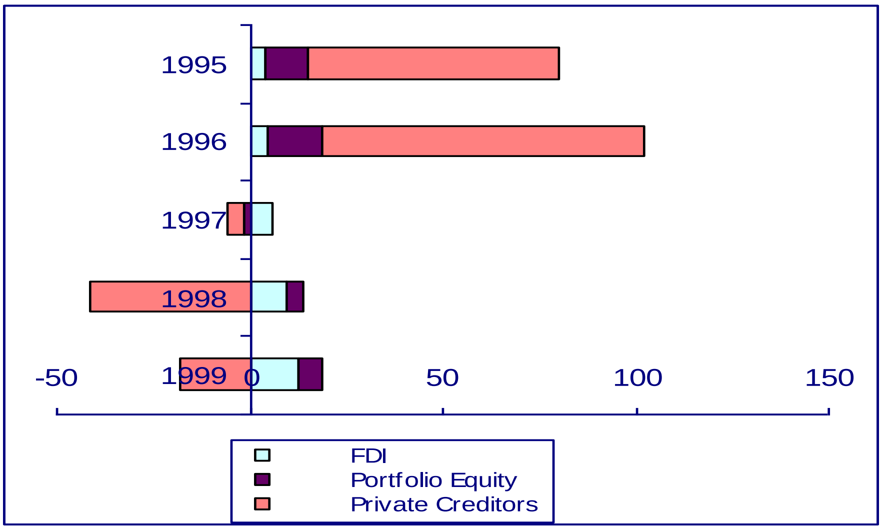
Five Asian Economies: Indonesia, Malaysia, Thailand, South Korea, and the Philippines
Data derived from statistics from the Institute for International Finance, 1999.

Data from the Institute of International Finance show that FDI to the Asian region has continued to rise even throughout the financial crisis. For the Asia-Pacific it increased from $41.9bil in 1995 to $54.1bil in 1998. For the five Asian economies affected most by the crisis (Asian-5) - Indonesia, Thailand, Malaysia, South Korea and the Philippines – the story is similar. From 1995 FDI has increased from $4.2bil to $9.5bil in 1998. While Indonesia was to suffer disinvestment of $6bil in 1998, increases in FDI for South Korea, Thailand and the Philippines tended to counteract that decline. Surprisingly, an FDI inflow into Asia after the crisis the United Nations (UNCTAD) reports was ‘quite resilient’. (UNCTAD 1998b:15)

The response by investors of FDI during the Asian financial crisis is significant because it indicates, first, that long term investment in the form of FDI is not as volatile as other forms of private investment. And, second, the desire of TNCs to continue to develop in the region. Cross-boarder M&As in Asia in 1998 increased by 28% in value over 1997 to reach $12.5bil accounting for 16% of all FDI into the region. For the Asian-5, M&As jumped to 53% of FDI inflows. (UNCTAD 1999) Presumably, this represented foreign companies taking advantage of opportunities to build affiliate businesses in Asia and to strengthen both market contacts and regional capabilities.

Yet, the flow of FDI into E&SE Asia was not directly related to the cause of the financial crisis. With the continued liberalisation of capital markets and the consequential increased availability of foreign capital, FDI has been overshadowed by foreign indirect investment (FII) in the form of portfolio equity investments and debt flows comprising bonds and loans. It is this highly mobile and highly volatile form of private capital flow that has proved to be the dynamic force shaping the course of Asia's boom and bust. [4]

Asian-5 Economies Private Capital Flows
($billions)



Data compiled from the Institute for International Finance, 1999.

FDI comprises only about 25% of all world-wide private capital flows with foreign indirect investments (FII) - made up of portfolio investments, bonds and other borrowings - comprising the vast remainder. For the Asian-5 economies effected most by the 1997-98 financial crisis (Indonesia, South Korea, Malaysia, Thailand and the Philippines) FDI comprised only 4.5% of private capital flows of $102bil for 1996, with FII comprising the other 95%, and foreign borrowings comprising some 80%.

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[4] *In addition to domestic finance made available savings and investments, foreign capitalisation and debt financing have become popular mechanisms to boost business growth. Businesses, banks, and occasionally governments, seek to raise foreign capital by way of equities or stock market sales - portfolios, bonds - and loans through banks and other institutions or private means. In contrast to FDI, these investments - since that is what they are from the viewpoint of the foreign lender or investor - do not transfer directly to company ownership or involvement but transfer indirectly through borrowing institutions, capital markets or stock markets. They are, in effect, Foreign Indirect Investments (FII) and are included as a category and variation of a capital transfer mechanism.*

There is no denying that in SE Asia in the early 1990s investment returns were there to be had. For both the Asia-Pacific and the Asia-5, both portfolio equities and private credit experienced rises of approximately 30% from 1995 to 1996. Yet, the difference in the quantity of the rise between the two categories is quite outstanding. The Asian-5 portfolio investments rose by $11bil from just $2.9bil to $13.9bil, as to private credit rising by from $18.6bil to $83.7bil. – a difference of $65bil.

The volatility of global private capital flows is thrown into sharp relief during the financial crisis with the rapid and extensive decline in credit between 1996 and 1998. For the Asian-5, the decline amounted to some $125bil or 150%. Similarly, portfolio equity flows declined 103% in 1997 alone. In comparing the various movements of private capital during the crisis something of the purpose and nature of the flows can be observed. FDI continued unabated and to even increase. Portfolio investments in the stock markets withdrew immediately and private credit - loans and bonds – stopped flowing into the Asian-5 immediately and continued to flow out over the next two years as loans were called in and not renewed.

While foreign investment has been a distinctive feature of SE Asia's growth, it has been a significant part of the process of integrating the region into the global commercial market. As Peter Drucker points out: "…trade is increasingly being replaced by investment as the world economy's economic driver. Investment used to follow trade. Now trade follows investment". (Drucker 1990:117)

<u>ii. TNC Industrialisation</u>

UNCTAD reports that in 1998 the value of international production coming from some 60,000 TNCs and their 500,000 foreign affiliates, amounted to $4tril. as a measure of accumulated stock of FDI. Global exports reached $2tril. and TNC assets reached some $13tril. by 1997. (UNCTAD 1998b:1-3 & 1999)

Yet, TNC industrialisation meant only marginal growth in export revenue for SE Asian economies in comparison to total export production. Even for Singapore, the leading industrialised economy of the region Chia Siow Yue reports that: “In 1992, foreign-equity capital accounted directly for 74% of the manufacturing sector’s exports. Wholly foreign owned firms alone accounted for 75% of direct export sales, whereas locally-owned firms contributed a mere 8%.” (Chia 1997:40) The US, European and Japanese TNCs, he states, accounted for 77% of direct exports. In parallel, Singh et al. report that by 1997 there were over 3,500 TNCs in Singapore[5] (Singh, Putti & Yip 1997) (European 29%, Japanese 23% and US 17%) With an FDI inflow of over $55bil. for 1995, TNCs have created an export trade ratio three times larger than the country’s GNP. While Singapore has historically acted as a through-port, TNC investments continue to grow mainly in electronics, light manufacturing and in the finance and banking sectors. (Singh et al. 1997:2)

Indeed, the main characteristic of TNC export, is its intra-firm trade. This point is illustrated in a study of 241 firms in 1993-94 across 8 economies (Hong Kong, China, Indonesia, Malaysia, Singapore, the Philippines, Thailand and Taiwan). For Malaysia, intrafirm trade in electronics accounted for 87% of all trade. (Dobson & Chia 1997:263) For Thailand the survey showed that in the manufacturing industry (machinery, electronics, computer machinery, auto-parts and motor cycles) “intrafirm transactions

[5] This counting of the number of TNCs for Singapore is vastly different from the number reported as operation in SE Asia by ASEAN as shown above. There is obviously a different method used for categorising businesses as TNCs.

accounted for 98% of all export sales and 94% of all import purchases". (Ramstetter 1997:126) In Singapore, the study of the electronics industry showed that of the 153 electronics firms, 108 of them were wholly foreign-owned and the other 45 were joint ventures. Of the wholly foreign owned companies, 48 were US, 49 were Japanese, and 20 were European. Of the 23 respondents to a question of intrafirm trade, 50% of them reported that over 90% of their exports were intrafirm sales. (Chia 1997:40)

Value of Intrafirm trade in the electronics industry: East Asia, 1992.

Economy	Intrafirm trade Exports (US$mil.)	Intrafirm trade Imports (US$ mil.)	Intrafirm trade Total (US$mil.)
Hong Kong	8518.3	7918.7	16437.0
Indonesia	511.2	1059.9	1571.1
Malaysia	9862.7	4542.2	14404.9
Philippines	850.5	336.0	1186.5
Singapore	17848.1	11030.9	28879.0
Taiwan	8230.4	3614.7	11845.1
Thailand	5946.3	3678.1	9624.4
Total	51767.5	32180.5	(55%) 82948.0

Source: Survey results from: Dobson, W. (1997) Multinationals and East Asian Integration, p. 263.

TNCs have been responsible for much the economic growth of SE Asia, but essentially, it has still been Triad TNC (US, Europe and Japan) business growth, and particularly Japanese TNCs interests in merchandise trade, that has carried the economic development of the region. In 1986, Japanese businesses had 80% of their foreign investments in the US and 14% in SE Asia. By 1994 the situation had changed dramatically with 38% of Japan's foreign investments in the US and 40% (or approx. $40bil) in SE Asia. (Far Eastern Economic Review 1996)

Higgott points out that for SE Asia, Japanese business investment played a leading role in providing the capital to develop the region's production structures. While the US remained a major destination for exports, in the late 1980s and early 1990s, Japanese business developed their own markets as a recipient of goods produced in SE Asia. (Higgott 1998a:3) By the middle 1990s, auto production in Thailand, for example, had grown to become Asia's export base for the global auto industry. Of the nine auto producers from Asia, Europe and the US, the Japanese companies had 80% of the market. (Higgott 1998a:2) Understandably, movements in global finance markets or in global demand for product have had a direct impact on SE Asian business growth.

Eric Ramstetter in reviewing FDI flows for a number of Asian economies, suggests that there have been structural changes in investment brought about by changes in the regions economies, the interests of TNCs and the distribution of production. (Ramstetter 1991:1-7) Along the same lines, Dunning suggests that there is a renaissance of the international market occurring. (Dunning 1993:285) Where it has been previously assumed that TNCs invested in order to gain from their existing competitive advantages, in the last decade TNCs have moved to acquire new competitive advantages through M&As. 'Alliance capitalism", as a strategy of working through cooperation and coordination is replacing arms-length business. (Dunning 1995:16-17) For SE Asia, this is born out in the continual rise and attraction of M&As as a form of FDI but also increasing non-equity forms of cross-border management and production as businesses seek to increase capacity and linkage.

iii. Export Growth

SE Asian governments, in introducing incentives in the 1970s for labour-intensive exports, such as subsidy schemes, export processing zones, and the establishment of commercial and trading banks, sought to create export platforms for TNC production. (Chow &Kellman 1993:6, Sachs & Radelet 1998:9) Taking advantage of these opportunities, TNCs engaged in low cost labour manufacturing or ‘export led industrialisation’ and thereby integrated their ‘foreign’ production into their market-production systems.

In particular, Japanese TNC market-production strategy in SE Asia, as much as a unified strategy can be identified, is seen in their growth of FDI and trade statistics. In 1967, Japanese FDI in E&SE Asia was only $6bn. but by 1994 it had risen to $74.7bn - while US FDI was $45.7bn. (Hatch & Yamamura 1996:6) The objective was not only to create a market for Japanese technology in their host countries but also to supply goods to their own domestic markets as well as their international markets. (Hatch & Yamamura 1996:175) While Asia has maintained a surplus balance of trade with Europe and the US from 1985 to 1997, with over a $20bil. surplus against the US, it had a trade deficit with Japan rising from $9.3bn in 1985 to $54.2bn in 1993. By 1997, SE Asia had a trade deficit with Japan of over $30bil.

Japan's external trade with EC, ASEAN and U.S.A.
(in US$ millions)

	E C		S.E Asia (85-90) /ASEAN (91-98)		U.S.A		Merchandise Total	
Year	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
1985	23,769	10,603	39,681	36,166	77,680	30,973	209,151	154,960
1986	32,315	14,668	43,899	31,378	84,719	30,717	220,423	134,608
1987	44,984	21,023	63,011	45,998	99,574	37,557	273,075	178,171
1988	47,679	24,487	68,288	48,653	91,242	42,797	269,573	190,678
1989	45,871	26,989	70,555	50,681	89,372	46,251	263,755	202,082
1990	57,119	37,450	88,198	58,143	9,642,9	56,025	306,181	250,038
1991	63,626	34,200	40,541	34,170	98,393	57,409	338,203	254,692
1992	63,564	31,803	41,336	32,057	97,239	53,125	345,065	236,882
1993	56,477	30,030	49,124	33,889	104,881	55,077	359,303	239,757
1994	59,004	36,300	61,823	38,780	120,563	64,353	405,666	281,522
1995	64,135	44,502	70,324	43,249	110,124	68,763	403,565	306,567
1996	59,032	46,239	68,590	49,170	104,993	74,417	385,681	327,586
1997	61,065	41,827	64,943	46,636	109,058	70,422	392,072	315,242

Source: Monthly Statistics of Japan, No. 357 & No.446

During the 1990s, Japanese business had successfully advanced their triangular trade integration between itself, SE Asia and the US. By 1997 with exports of $109bil to the US and a surplus of $39bil, Japan was also exporting nearly $65bil in merchandise to SE Asia with a trade surplus of some $19bil. At the same time, SE Asia was exporting some $70bil to the US and running a trade surplus of some $9bil. (ASEAN: 1999) In terms of overall trade, in 1997, Japan's trade with SE Asia amounted to $111bil while its trade with the EU was $103bil and with the US, $179bil.

The development of industry in Asian environments as a source of trade explains why there has also been a high level of foreign capital investment – both FDI and FII - into East and then SE Asia. As discussed later, this process has had significant implications for SE Asian productivity levels and contributed greatly to SE Asia's financial demise in 1997-98.

The growth of the Japanese economy and of Japanese business is in reality a mosaic of developments and trends, whereby not all industries were equally successful or necessarily followed the same strategies. Accordingly, technology has only developed in the direction and at the pace of the business sector concerned.

Still, there is an identifiable history of Japanese business production strategies and network creation in SE Asia. Instead of following a neo-classical approach to international business growth by way of producing in the domestic market first to serve domestic needs and then expanding sales overseas, goods were produced overseas to feed both the domestic market and other foreign markets. While production efficiency was still the focus of Japanese business, Japanese business brought new approaches to managing efficient and marketing strategy. Indeed, the old approach of producing in one country to sell to another has given way to global commerce, which involves production, packaging and marketing across boarders but within business systems.

iv. Regional Integration:

It has been argued that SE Asia's economic growth, and decline, is linked to global commerce. Yet, the growth and development of SE Asian economies, as a consequence of global export trade, has also served to create regional economic integration.

As Japan absorbed an increasing amount of SE Asian trade it had increasing structural significance for the SE Asian region because of the high degree of investment, TNC industrialisation, and intrafirm trade that characterises Japanese-SE Asian business. Indeed, movements in the value of the yen or the state of the Japanese economy, directly effect business and commerce across SE Asian, as well as the rest of the Asian region. (Higgott 1998b: 3, Akyuz 1998: 50)

To refer to the commercial relationship between Japan, Taiwan and SE Asia, as an example of the interrelationship, with Japan's real economic growth declining to 3% in 1997 and domestic consumption decline by 5.2%. (Miller 1999) Taiwan experienced a consequential decline in exports to Japan of some 22% and to SE Asia of 26% in 1997, which severely effected its economy further as 48% of Taiwan's exports are intra-regional. And, because of the economic integration of the region, the state of the Taiwan economy affects others. Consequently, Taiwan's FDI investment into China in January 1999 fell by 75% from January of 1998.

SE Asia's Main Trading Partners

Imports		**Exports**	
Into:	From:	From:	To:
Singapore	Japan	Singapore	USA
Malaysia	Japan	Malaysia	USA (via Singapore)
Indonesia	Japan	Indonesia	Japan
Thailand	Japan	Thailand	USA
Philippines	Japan/US	Philippines	USA

Source: Asian Development Bank.

Business links and trade across the Asian region have come to dominate the SE Asian economies as the proportion of trade with the US has declined. IMF figures show that intra-Asia regional trade rose from 30.9% in 1986 to reach 45% in 1994, while Asian-regional trade to the US fell from 34% to 24%. At the same time, Japan's exports to Asia grew to $186bil., or 42% of Japan's total exports, by 1995. (IMF: Directions of Trade Statistics) While the US and the EU remain E&SE Asia's largest export markets, the growth of intra-regional trade indicates the growth of Asia's emerging markets as served by Asian based business.

Ethnic Chinese Investment in Selected Asian Countries

	CAMBODIA	INDONESIA	PHILIPPINES	THAILAND	VIETNAM
Taiwan	8th	3rd	8th	8th	1st
Hong Kong	3rd	2nd	5th	2nd	2nd
Singapore	2nd	7th	7th	4the	5th

Source: Department of Foreign Affairs, Commonwealth of Australia, 1995

In compliment to Japanese business and economic regional integration, Overseas Chinese – Chinese living outside of Mainland China – business and investment interests have come to extend the region's integration. Comprising some 60 million people and with assets of over $2tril. (Henderson 1998:23) the Overseas Chinese have used extended family networks to provide source capital for investments particularly in the SE economies of Thailand, the Philippines, Indonesia, Vietnam, Cambodia and Myanmar. (Backman 1995:6) Akyuz et al. suggest that the "NIEs now have more direct investment in South East Asia than in Japan." (Akyuz et al. 1998:50)

The Impact of Foreign Business and Finance for SE Asian Business.

High volume foreign capital investment into SE Asia + TNC industrialisation + merchandise exports for foreign markets = an international market-production system.

This market-led regime made production subservient to foreign market demand and vulnerable to demand-side volatility and trends. Thus ‘competitiveness’ has been a factor is the success and then the failure of SE Asian business production as consumer demand has remained price sensitive seeking low cost products. While the combination of market forces, the state, and the social-historical environments of the individual economies have given rise to different development paths, market forces are here portrayed as the primary determinant.

Accordingly, the financial crisis, as starting in Thailand, is explained as initiating with contracting demand for SE Asian product.[6] With SE Asian currencies pegged to US dollar values, in 1996 the appreciation of SE Asian currency values caused SE Asia’s competitive advantage to deteriorate, as SE Asian goods became relatively expensive in global markets. (Song 1998:38) In contrast, Chinese products were becoming increasing competitive. Dic points out that exporting to China was one of the main objectives of Japanese business relocation to SE Asia. But with increasing foreign investment applied to low cost labour, Chinese business were able to compete from the same regime as SE Asian based business. (Dic 1999:9)

In addition to contracting trade growth, the increased availability of foreign investment made SE Asian economies that much more vulnerable to financial crisis. With the

[6] – a contraction that Dic Lo suggests was an inevitable aspect of E&SE Asia’s miraculous growth given changing US policies toward investment and trade in the aftermath of the Cold War. (Lo 1999:8 Higgott 1998:10)

continued liberalisation of global capital markets (Wessel & Davis 1998:4) and the parallel liberalisation of SE Asian regulation of capital flows, (Dic 1999:10) there was a consequential increase in inflow of capital. With programs of massive investment in infrastructure, along with new programs of import substitution, SE Asian governments sought to improve their investment environments and attract capital to develop new industries. Again, as Japanese investment capital had help develop SE Asian industrialisation throughout the 1980s, readily available cheap credit from Japan now also fuelled "the speculative investment capabilities of international financial houses that were so influential in contributing to the financial instability of East Asia [and SE Asia] in the 1990s." (Higgott 1998:3) Indeed, it has been this highly mobile and highly volatile form of private capital flow that has proved to be the dynamic force shaping SE Asia's boom, and then bust, in the 1990s.

The large amount of capital flowing into the Asian region meant that funds were available in the domestic market at relatively cheap interest rates. But the limited ability of Asian economies to absorb such funds in industry and export trade, coupled with weak and inefficient banking systems, meant that investment moved to real estate and other non-productive enterprises. But with the increasing flows of FII came increasing debt. The debt phenomena became so pronounced that Robert Wade and Frank Veneroso have referred to it as the "high debt model of Asian development'. (Wade and Veneroso 1998:1-4)

External Debt as a % of GDP, 1996

	Debt (US$ Billion)	**% of GDP**
Indonesia	113.6	49.7
Malaysia	38.3	38.8
Philippines	41.8	48.1
Thailand	99.8	48.8

Source: ASEAN Regional Outlook 1998-99: Institute for SE Asian Studies.

External Debt as a % of Exports, 1996

	Total Debt/Exprts End – 1996	Debt Service/Exprts End-1996
Indonesia	213%	29%
Malaysia	49%	7%
Philippines	132%	15%
Thailand	130%	13%

Source: ASEAN Regional Outlook 1998-99: Institute for SE Asian Studies.

For Thailand, external debt increased from $54.6bil. in 1994 to $100bil. by the end of 1996, with a large proportion (some 30% of corporate debt alone) in short-term loans. (Song 1998:38) The other SE Asian economies debt and financial problems were no better than Thailand. By the end of 1996, Indonesia had accumulated foreign debt of over $110bil., or almost 50% of its GDP. While Malaysian foreign debt totaled only $38bil., it still amounted to 39% of its GDP and its domestic credit to GDP ratio in 1996 was over 150%. In comparison, Thailand had a foreign debt of $90bil. which amounted to some 49% of its GDP. (Song 1998:39).

Where SE Asian business had been dependent upon global market demand for merchandise product, and become increasingly vulnerable to global market demand volatility in the process, so the attraction of global capital, especially FII, had made SE Asian business, and banks, vulnerable to global capital markets as well. Thus, the exogenous factors of capital flows and global market forces can be seen to have been foundational to SE Asia's commercial and economic development for periods of 'miraculous' growth in the 1980s and 1990s. It was indeed the incongruence – or bad management – between the foreign inputs and endogenous business practices that brought on the crisis and, accordingly, reveals the crisis to be self-inflicted. (Higgott 1998b:3)

Yet, as noted, FDI and M&As continued to grow for SE Asian economies throughout the crisis period. In addition SE Asian exports also continued to rise climbing from $206bil in 1993 to $351bil in 1997 – a 58% increase. (ASEAN 1999) The trend in increasing FDI and trade suggests that SE Asia remains a favourable site for TNC activity. Accordingly, the growth by export to foreign markets phenomena will continue as long as Asian environments remain competitive. But herein lies the real problem.

With the liberalisation of China's trade policies and advancing production opportunities, China's exports, potentially, could be larger than all the other E&SE Asian (excluding Japan) business combined in less than a decade. Yet, there is a limit, however, to how much American and European markets will absorb. The European Union (EU) and the North America Free Trade Area (NAFTA) both have high level of unskilled and low skilled workers necessitating an increase in manufacturing jobs for both political and social reasons. Accordingly, Asian exports to the EU and North America are likely to decline.

Thus there is a need for SE Asian economies to develop stronger endogenous factors in the future if it is to be less vulnerable to global market forces. (Porter 1996) TNCs will remain a dominant influence on the region's development for some time to come. However, the continued convergence of Western and Asian corporate institutions, along with new and varied forms of global business, will bring about the growth and evolution of the global business growth model for SE Asia.

Conclusion.

In seeking to explain SE Asian economic growth, a conceptual model of global business growth has been presented. Fundamental to this model is an appreciation of the importance, and even dominance, of global business initiative and global financial investment in bringing about SE Asian industrialisation and export growth. TNC development, however, occurred, in the direction and at the pace of the industry concerned. If there was a pattern to E&SE Asia's regional development, it has come about through TNCs and Foreign investment moving from high-cost economies to low cost economies in search of comparative advantages. In the process, SE Asia's growth was dependent upon global commercial forces as much as regional and domestic opportunities. While there may well have been an export growth strategy, it was a foreign business export growth strategy.

Yet, global integration, 'Asian' style, with high levels of foreign borrowing and accumulated foreign debt, has made SE Asian economies vulnerable to global market forces. While much has been said about SE Asia's need to improve its management capacities and financial regulation (Higgott 1998b, Fischer 1998; Dic 1999, Krugman 1998a & 1998b; Goh 1999) the prevention of future crisis is not that simple. Indeed, Peter Drucker would question whether control of global finance was at all possible in the context of emergence of the global information era. He says conflict is inevitable as governments and society desire stability and the new organisations and business relationships will want autonomy and flexibility. He points out that "Today's world money flows have become the great destabilisers." (Drucker 1995:127) Thus the 1997-98 financial crisis revealed just how vulnerable SE Asia was to global market forces, but also how vulnerable all economies, as members of the global economy, are to global market forces.

Change is inevitable, but change is not a by-product of the global era. It is an integral feature of it. Business operations and even business models in SE Asia will change, not because it will be forced to change, but because business will continue to evolve in response to global opportunities. Thus the model of global business growth for SE Asia, as for other economies, will only become that much more apparent.

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