

# **MAS-ESS ESSAY COMPETITION 2001**

**East Asia in the New Economy: Problems and Challenges**

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**By**

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## **SUMMARY**

It is generally accepted that the East Asian region is one of the more robust regions in the New Economy – an economic order characterised by the information technology revolution, globalisation and their attendant implications. Of late, the East Asian story has made an about-turn from the earlier promise to one of strains and mishaps. Much of this reversal has to do with the failure of governments to grapple with the brutal realities that have come about, with the advent of the New Economy.

Of the many assessments that attempt to rationalise the continuing problems of the region, little is suggested to address the root problems that beset East Asian countries. It is time that these problems be confronted in ways that will help the affected countries to wake up from their slumber, and begin to tackle the issues head-on.

To begin with, it must be realised that the problems are multifaceted. Measures such as economic restructuring or deregulation of the banking sector, require equal overhaul and reform of other areas such as political systems, and a reassessment of outlooks and values. There is also the dire need for policy-makers to be visionaries and consider long-term goals, rather than the winning of elections and safeguarding their party interests.

In an unbordered global village, any approach to solving the problems of East Asian states has to also involve external considerations, such as international powers whose interests are dependent upon the many developments in the region. In this new world

order, problems of countries and regions are becoming ever more internationalised, impacting upon global interests.

For East Asia, all these expected problems and challenges can still be mitigated. Their governments and peoples should ponder the sayings of Confucius, a great sage of their region, who viewed calamities as moments not of despair, but opportunity.

( 300 words )

## **East Asia in the New Economy: Opportunities and Challenges**

*“The new economy has the potential to act as a liberating force for a whole generation of underprivileged people.”*

- Mary Robinson, UN High Commissioner for Human Rights -

### **Introduction**

The Asian economic boom in the early 1990s promised to herald a new era of development and unparalleled prosperity, for the East Asian rim in particular. The massive influx of Western investment into the region, particularly in the technological industries, and the easing of regional trade barriers was touted as the ticket to globalisation. For a while, the ‘bubble economy,’ transformed the socio-economic profile of many Asian urban centres. New metropolises began emerging to challenge traditional hubs of commerce and industry like Tokyo and Hong Kong.

Few anticipated the widespread turmoil that would soon engulf the region with the 1997 economic crisis. This humbling experience taught Asia’s burgeoning economies and policy-makers many lessons. To begin with, that the prospect of future success is at best volatile, and that the best insurance for the future is to focus on long-term planning and not short-term dividends. There is also the dire need to launch bold structural reforms of the key institutions of the state apparatus involving all sectors of society, politics and the economy.

That said, many countries in East Asia are showing positive signs of recovery. The best hope for the region in the New Economy (NE) lies in the anchor countries of Japan and China, and in the Newly Industrialising Economies (NIEs) of Taiwan and South Korea. But

before these countries can relive the “flying geese”<sup>1</sup> period of economic flight and prowess, radical and dramatic changes must occur and be implemented with urgency. Many factors currently impede the realisation of such promise and growth potential for the region.

This discussion will attempt to cover both levels of analysis, namely, the overarching issues that are collectively faced by East Asia, as well as the more specific domestic problems faced by the individual countries. Together, these internal and external dimensions help to place in perspective, the nature of the challenges that regional policy-makers are being confronted with.

### **Defining ‘East Asia’ and ‘New Economy’**

Due to space constraints, this essay will focus mainly on the major players in East Asia - China (and with it Hong Kong), Japan, Taiwan and South Korea.<sup>2</sup> Arguably, the fortunes of the entire region will depend very much on the capacity of these countries to address the myriad internal and external challenges confronting them in this period of the New Economy.

To highlight the salient features of the NE : The NE is being driven by forces such as technological innovation, information technology and globalisation. Propelled by the rapid and indiscriminate flow of trade and ideas across the world’s borders, a priority is the knowledge factor, specifically, up-to-date learning of skills and creative usage of relevant knowledge in a dynamically changing environment.

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<sup>1</sup> This description refers to the Japanese-led economic boom in East Asia in the 1980s, flanked by China, South Korea and Taiwan and subsequently involving the rest of Asia.

<sup>2</sup> And subsequently relations with North Korea and their impact on the region.

The NE is dependent on people's ability to adapt to it. Those without the relevant knowledge and adeptness will invariably be left behind. Even those attuned to the NE are often not spared from its temperamental turns. More than ever before, the traditional notions of power and might will hinge more on economic prowess than other factors such as size of a state.

For East Asia, the NE and globalisation will mean many opportunities and problems, including tensions between democracy<sup>3</sup> and authoritarian governing cultures. Unpredictability will continue to haunt the region in the process of grasping new domestic and international realities. There is also the need to manage bilateral and multilateral relations in the region and with the world.

These and other matters will be the subject of my analysis in this essay. Given the constraint of space and the need to cover an adequate range and breadth of the issues besetting the region, I shall categorise the problems and challenges into the security-strategic, political, economic, and socio-cultural categories.

### **Security-Strategic**

The region has become a hotbed of ideological and territorial conflict in the recent past. One of the more pressing concerns facing East Asia today is the regional and domestic security issue. Regional defence spending continues to rise at an alarming rate. The growing Taiwanese military presence in China's backyard in response to the looming Chinese military threat, has resulted in increased Taiwan-US military exchanges.<sup>4</sup> China in turn has responded by flexing its military

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<sup>3</sup> In particular, the human rights movements and freedom of speech.

<sup>4</sup> "Taiwan test fires Patriot missile", *Straits Times* (Singapore), June 18.

muscle within strategic range from Taiwan's borders, and diplomatically wooing traditionally pro-Taiwan countries.

The rise of Islamic extremism both in the region and within China's ethnic minorities<sup>5</sup> has prompted the recent formation of the 'Shanghai Forum'.<sup>6</sup> The United States with its many interests in the region, also acknowledges its concerns over the so-called "Islamic threat," particularly Osama bin Laden.

Clearly, China wants to be accepted as a major world power. As such, its strategy prioritises collaborative relations with many countries. The recent furore over the Sino-US spy plane incident, reflects this new Chinese desire for international leadership. Both China and North Korea (traditional Communist allies) continue to look at the US-Japan axis as a military threat, a legacy from the Second World War and the earlier Meiji Restoration.<sup>7</sup> This long-lasting historical enmity will continue to serve as an impetus for further arms build-up in the region. So too with China's relations with South Korea. China normalised its relations with South Korea in 1992 despite opposition from the North, a move aimed at increasing bilateral trade.<sup>8</sup>

The strategic picture for the region, however, is promising. Even with the many sources of regional tension, events this decade have given hope for greater stability. Relations between North and South Korea continue to attain some breakthroughs.<sup>9</sup> South Korea's "Sunshine

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<sup>5</sup> China has more than 50 ethnic minority regions.

<sup>6</sup> Consisting of China, Russia and the former Soviet states of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

<sup>7</sup> The "debt of history" discussed by Takashi Inoguchi in the *Asian Journal of Political Science*, June 2000, "North Korea's Enduring Importance to Chinese Security in the Post-Cold War Era".

<sup>8</sup> China-South Korea bilateral trade had a 1997 value of US\$24 billion.

<sup>9</sup> Including the historical June 15, 2000 meeting between Kim Dae Jung and Kim Jong Il, which won the South Korean president the 2000 Nobel Peace Prize.

Policy” of engagement with the North, though, may serve as a barrier to future relations given the South’s defensive position. Hence, it is necessary for policy-makers from both sides of the Panmunjom border to sustain their dialogue and continue with peace-making measures. Much patience is needed to foster greater trust between the two Koreas.

### **Political**

Beyond security-strategic considerations, there are political factors needing attention. Traditional Asian authoritarianism and outlook have been blamed for their inability to cope with dynamic changes sweeping the globe today. Take the case of a mighty country like Japan, with clouds lingering on its horizon. The manifest bad loans, 5% unemployment rate and just 0.5% GDP growth<sup>10</sup> sorely need restructuring of government leadership and corrupt political systems.<sup>11</sup>

Analysts have blamed Japan’s ‘misguided policies’ and politicians for wreaking havoc on its economy. Bureaucratism and rigid cultural practices hamper progress. Alex Kerr, a long-time resident economic analyst, describes Japan as a “post-industrialised state with pre-industrial goals”.<sup>12</sup> Breeding uniformity is an unhealthy trait shared by other traditional Asian cultures.

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<sup>10</sup> “Japan faces near-zero growth,” *Straits Times*, 25 June 2001.

<sup>11</sup> Jim Hoagland, “Japan’s economic crisis needs stronger medicine,” *International Herald Tribune*, June 28 2001.

<sup>12</sup> Alex Kerr, *Dogs and Demons : Tales From the Dark Side of Japan*, Hill and Wang.



A promising development is the recent appointment of Prime Minister Junichiro Koizumi, and the wide support he receives for his fresh, radical outlook and plans for reform.<sup>13</sup> Japan's upcoming July 2001 elections will determine if Koizumi receives the mandate he requires.

What about politics involving China? In spite of their long-standing historical feud, it is but a matter of time before Taiwan's return. Thus, policy-makers have to look at the long term scenario – the union of China and Taiwan – in any political analysis involving the two countries. Differing political ideologies over the Taiwanese issue will continue to shape their domestic politics. Beijing's 2008 Olympics bid has shown its increasing accommodation towards Taiwan, as evident in China's offer to hold some events across the straits.<sup>14</sup>

Meanwhile, China's political leadership continues to grapple with the paradox of wanting to liberalise its economy, but on the other hand refusing to change its long-held communist leadership style. Its unrelenting propaganda campaign of suppression against the Falun Gong movement was criticised by human rights groups as an attempt to decimate the main challenge to the Communist Party's leadership.<sup>15</sup>

The long-term entrenchment of the Communist Party has created problems of lack of accountability and deep-seated corruption. Outspoken opposition challengers are often jailed. This is another challenge the Chinese government must face before it can be seen as a credible competitor in the NE. The West's widespread democracies do

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<sup>13</sup> "Japan's great last hope is PM Koizumi," *Straits Times*, June 27 2001.

<sup>14</sup> "Taiwanese and Chinese athletes together in 10-city marathon", *Straits Times*, 23 June 2001.

<sup>15</sup> "China tightens its grip on Falun Gong," John Pomfret, *Washington Post Foreign Service*.

not take kindly to such acts. In addition, more can be done to improve its treatment of the 50-odd ethnic minorities in its fold.<sup>16</sup>

Mistrust between communist China and the Western powers also continues to serve as an impeding factor in relations. The fierce nationalistic response to the May 1999 bombing of the Chinese embassy in Belgrade and the 'spy plane' incident in 2001, only served to show China's new political aspirations internationally.

Insofar as the two Koreas is concerned, their different ideologies, given the inevitability of their re-merger, means that they need to consider long-term goals and interests. With time and greater impetus and support from the outside world, the North will begin to open up its borders to the prospect of trade. Europe has already played a key role in bringing the Stalinist North out of its isolation.<sup>17</sup>

### **Socio-Cultural**

Policy-makers must consider matters such as class divide and identity when analysing the socio-cultural aspect of the NE. Helping their citizens to adapt to the NE is a challenge faced by governments of the region. The rapid pace of change and development in the NE can boost growth, but also creates massive upheaval in the labour markets.<sup>18</sup>

In the meantime the NE is widening the income gap and 'digital divide' by rewarding people with higher levels of education and skills. Tackling such separations requires multi-skilled populaces who can

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<sup>16</sup> Although constituting only about 10% of China's 1.2b population, these nationalities total more than 100 million people.

<sup>17</sup> "S.Korea seeks Europe's help with peace process," *Straits Times*, 29 June 2001.

<sup>18</sup> In the first 10 months of 1998, American companies announced plans to eliminate 523,000 jobs, 60 % above the pace of the previous year. Yet during those same 10 months, 2.2 million new jobs were created overall.

cope with a variety of job descriptions. Continuing education at all stages of life is also an integral part of the NE, to equip workers with a multitude of relevant skills and the tools to find upward mobility regardless of their age. As Alvin Toffler, the noted futurist, said, “He who controls knowledge rules the river.”

Education policies must thus be orientated towards educating all segments of the population and not just the young.<sup>19</sup> To avoid excessive burdening of the working sector, company management has to be roped in to provide their workers with the time and support required.

Globalisation also has the potential to improve the lives of the region’s impoverished. By cutting costs and providing new means by which people such as farmers can grow their crops more efficiently and cheaply, technological innovations such as the “Green Revolution” have the potential of increasing self-sufficiency.<sup>20</sup> Land reform and sustainable agriculture, however, are more vital to the growth of a vibrant rural economy. This raising of living standards among the poor is one of the main benefits of the NE.

These reforms, however, still require money. Corruption is a major, if not endemic, problem in East Asia which diverts funds from where they are desperately needed. Governmental policies must emphasise openness and accountability. Severe levels of corruption<sup>21</sup> exist in China, involving many levels of government. The problem lies in that the making of profit in China, has in large measure depended upon the necessary political connections, or *guanxi*.

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<sup>19</sup> “Revolution in education needed, says Alvin Toffler,” *Straits Times*, May 2001.

<sup>20</sup> “Do we need new technology to end hunger?,” Peter Rosset, *Tikkun Magazine*, March/April 2000.

<sup>21</sup> “Thousands of officials punished in China's anti-corruption purge,” James Conachy, <http://www.wsws.org/articles/2000/feb2000/chin-f01.shtml>.

Pressure to control the corruption of government officials is coming from trans-national corporations and Western governments. With China's impending entry into the WTO, foreign capital will pump up the domestic economy. Trans-national companies will not tolerate "crony capitalism" and excessive bureaucracy in getting their products into the market. In the process of reform, the national regime is having to undermine the bureaucracy beneath it and its many officials are losing access to long-held privileges<sup>22</sup>, generating frictions and tensions.

The centralisation of Communist power is subsequently under pressure. China's bids for entry into the WTO and the hosting of the 2008 Olympics have widespread ramifications beyond economic growth. The Chinese government has had to improve social conditions and allow a greater degree of international accessibility to its affairs.<sup>23</sup>

Hong Kong, the world's 8<sup>th</sup> largest trading entity, is a classic example of an East Asian city in flux. Straddling the gap between East and West, it can serve as a conduit for China's full induction into the NE with its highly developed communications network.

Japan's aging population also poses an increasing burden on the economy. One method of overcoming this problem includes the import of a foreign working class, but such an idea will face the criticism of Japanese who oppose 'cultural dilution'.

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<sup>22</sup> Author Maurice Meisner noted in *The Deng Xiaoping Era*: "By the mid-1980s, Deng Xiaoping's much celebrated market reforms had produced a capitalist economy that revolved around the use of political power for personal profit. That it was an economic system based on official corruption was hardly a secret in Chinese society".

<sup>23</sup> For the first time ever, Chinese officials have allowed international media to attend its court cases.

In view of rising energy demands, environmental degradation is becoming a topic of major concern, as reported by the *Asian Environment Outlook 2001*. Declining standards of air and water<sup>24</sup> quality in the region will serve as constraints to economic growth, and cause rising rates of poverty in agricultural-based regions. Class divides are further broadened by this trend which mainly affects the poor. A startling statistic notes that Asia is home to 2/3's of the world's poorest. Environmental damage on the economy has affected China's GDP by 8%. Few countries, if any, are committed to development of renewable sources of energy and continue to consume fossil fuels at alarmingly high rates.

In spite of this, Hong Kong can serve as an example to follow. It is one of the greenest cities in Asia, with 70% of the total area reserved for rural use or protected parkland. It is also home to a large number of animal species.<sup>25</sup>

## **Economic**

Economic growth will continue to serve as a main driving force behind regional relationships in the NE, providing a means by which old adversaries can be brought together in common economic pursuit. China's bid for entry into the WTO has recently seen its chances dramatically improved with the resolution of major issues between China and its main detractors, mainly over the opening of its markets to American<sup>26</sup> and European<sup>27</sup> merchandise and goods. In the process, this has encouraged free trade and strengthening ties between the superpowers.

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<sup>24</sup> 1 in 3 Asians have lack of access to safe drinking water, and Asia will be the world's largest emitter of greenhouse gases by 2015.

<sup>25</sup> The waters off Hong Kong's new airport are home to a large number of Indo-Pacific dolphins.

<sup>26</sup> "China's \$3.6b 'gift' to America's farmers", *Straits Times*, June 16 2001.

<sup>27</sup> "Deal paves way for China's WTO entry," *Straits Times*, June 22 2001.

This is a positive step for China as its domestic markets have been weakening. State enterprises, which comprise a huge 44% of total economic output and are subsidised by the government, are clearly unprofitable and needing urgent revamp. The government has attempted to stimulate the economy by encouraging increased public spending and tax-free investment.<sup>28</sup>

The regional powers can help themselves and others by supporting pro-growth policies in the developing countries of the region. Free trade policies will also allow these countries to open up their markets to globalisation and the NE. Private enterprises must be allowed to compete on the same level as state-owned ones. This means greater liberalisation and diversification are needed. Without fierce domestic competition, standards will drop and stagnancy may become an unavoidable prospect, particularly in Taiwan and South Korea.

South Korea is also facing problems with its labour unions. The unions and their militant tactics are the primary cause of the strikes hampering the Korean economy. This in turn is scaring away foreign investment.<sup>29</sup> While the unions have valid reason for concern – the average work week for full-time workers is the longest in the world, at 55 hours - the challenging of reforms by the unions has led to decreasing public support.<sup>30</sup> Structural reform is vitally needed to salvage the South Korean economy, particularly with the state-owned chaebols. The reputation for protectionism of domestic companies is resulting in a loss of the labour cost edge that enabled Korea to develop so rapidly. The move to revamp its economy to focus on higher-value-

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<sup>28</sup> “Economic zones” such as Shenzhen attract billions of dollars in foreign investments.

<sup>29</sup> Foreign investment holds 30% of the value of the Korean Stock Exchange.

<sup>30</sup> “Labor pains,” Roger Dean Du Mars, *Asiaweek*, June 29 2001.

added products, promises to cut costs in competing with the global economy in the NE.

Increased globalisation accelerates the rate at which innovations are made and brought to market. In particular, biotechnology has massive potential for East Asia. In the future NE, biotechnology will be essential in boosting growth via healthcare and agriculture. Advances in computers and communications also directly affect industries that move and process information, such as the media. Just as the growth surge of the early 20th century was fuelled by a cornucopia of innovation, so will the New Economy be propelled by more than one major technology.

We must be aware, however, that high returns usually involve high risks. Policy-makers must be careful to factor in the prospect of failures along the way. 'Putting all the eggs in one basket' would be suicidal and a spread of technological investment would be wiser.

## **Conclusion**

It has become clearer than ever before, that the progress of countries and regions in this era of the New Economy is contingent upon their state of readiness and level of commitment. They must restructure and reprioritise their entire worldview and policies in ways that gel with the expectations of the new millennium. For East Asia, the NE can be either an asset or liability. Leaders and policy-makers must have the vision and capacity to mobilise their peoples to adopt a major change in the way they work and play.

The New Economy is indeed posing tremendous new problems and challenges covering all facets of life. Income gaps are growing, economic growth becoming sluggish, and political turmoil is derailing the growth and development of East Asia. Even traditionally strong economies are not spared.

Given these challenges, policy-makers in the region have to quickly put their act together and start the bold transformations that are much needed to get their earlier prosperity back on track. Any procrastination on the part of governments will only mean their states and peoples will be left behind by other more developed and adept countries. In this regard, East Asian leaders would do well to prioritise and reenergise their policies to emphasise the following:

First, the entire population must be made to realise and accept the importance of life-long learning. Second, the approach to solving the myriad problems must be holistically tackled from all fronts - politics, society, economy and culture. Thirdly, the population must be prepared for the many difficulties facing them in the interim period of the NE. Fourthly, politicians cannot continue to think of their own short-term



interest but must engage in bold reforms of the government for the long-term sustainability of the country.

Finally, the problems of East Asia are not confined regionally but involve other outside powers. Major powers will resist attempts by China to act with impunity in the region. In an increasingly inter-dependent world, more and more issues will become internationalised, such as drug and arms trafficking across borders.

The leaders and policy-makers of the region owe it to their peoples to develop the region as a vibrant, stable and prosperous area that has the potential to become the focal point of the world's New Economy.

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