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EAST ASIAN LABOUR MARKET REGIMES IN THE CONTEXT OF GLOBAL ECONOMIC CRISIS

DO THE ADVANCED NATIONS OFFER TRAJECTORY PATHS FOR THOSE FOLLOWING?

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PURPOSE

THE global economic crisis caused by an improperly regulated financial sector giving way to excessive risk-taking behaviour has led to a worldwide crises, and widespread slow down and loss of jobs. The situation in East Asia is somewhat different from that in the western world in that finance bubbles had already been burst in the 1997 crisis and lessons learned from that. Nevertheless, developing East Asia is still dependent on western markets as destinations for exports as domestic markets remain insufficiently developed to absorb production of goods and services. In this situation, states such as Thailand, Vietnam and Cambodia look to examples from elsewhere in the region concerning the means of transforming themselves from being part of the factory age, which limits growth at the upward end of the middle income range, into the higher income range of economies. Examples include the Republic of Korea, Taiwan, Singapore and even to some extent Malaysia. This raises the question of the extent to which the examples of those other states, in which labour market management has passed further along a familiar trajectory, offer practical examples that can be applied in the developing states that follow behind them. Issues of relevance in this case include wage and compensation issues, management of unions and the freedom of speech, association and collective bargaining, as well as the interaction between the education system and the labour market.

Design Methodology/Approach: *The paper employs a critical-analytical approach based on a mixture of secondary data sources introduced into a framework for analysis.*

Findings: *It is found that significant differences exist between the various states concerned according to the analytical framework, which incorporates geographical and historical factors, including the role of the actors involved in the Cold War, as well as the diffusion of technology, the availability of capital for investment and other institutional factors. There are also important similarities to be noted.*

Research Limitations/ Implication: *The analysis is conducted at a macro-level and more variations might be found if factors and data were to be disaggregated to the industry level or even further.*

Practical Implications: *The analysis provides useful information for understanding the nature of investment regimes in the countries studied and the nature and structure of their labour markets.*

Originality/Value: *Labour is often the overlooked factor when it comes not just to investment decisions (when aggregate costs are dominant) but also in economic and social development both from low to middle income and from middle to upper income levels.*

Key Words: Labour Markets, Economic Crisis, East Asia, Thailand, Korea.

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Introduction

Rapid industrialisation and the spread of advanced capitalism in East Asia first took place in Japan in the years following World War II and then this process was taken up by the Four Tigers or Newly Industrialising Countries (NICs) of South Korea, Taiwan, Hong Kong and Singapore. Economic development in all of these countries was based on low cost manufacturing, often OEM (Original Equipment Manufacturing) in nature, aimed at import substitution and export promotion. Low costs were provided principally through suppression of labour costs by drawing in workers from previously under-productive agricultural sectors, as well as suppression of workers' rights in such fields as collective bargaining, freedom of speech and freedom of association (i.e. trade union membership).

High domestic propensities to save and willingness to defer expenditure in favour of higher education helped provide the conditions by which investment was financed internally, initially mostly by governments but increasingly later by domestic corporations. Rapid industrialisation was not seen merely as a desirable outcome but an essential means of survival. Each of the NICs in particular faced an urgent and existential threat: Korea was at war with an initially more powerful northern neighbour, Singapore was faced with possible reintegration into the Malayan Federation and both Taiwan and Hong Kong feared forcible reabsorption into the Chinese state. These conditions lent justification to the restrictions on freedoms deemed necessary for national survival, Neo-Confucian Ideological State Apparatuses were established to help reinforce the messages of duty and obedience for the greater good among the people. Restrictions on inward migration helped buttress concepts of homogeneity and national cohesion.

To some extent, these policies were simply the result of putting to rational and efficient use all the resources available to the state, which is the position taken by Krugman (1994). However, the NICs, particularly Singapore and Korea, have gone further than just putting resources to work by creating new forms of comparative and competitive advantages that can be deployed so as to help their economies overcome the chokepoints to development represented by such phenomena as the Middle Income Trap, in which the means by which a state is able to raise itself from low to middle income status cannot be the same as the means by which it will raise itself from middle to high income status. Achieving this latter requires advancement up the industrial ladder and the creation of goods and services capable of competing in world markets on more than just low price conditions. Effecting such changes also has implications for the social contract between state and people: existential threats diminished as the countries began development which also indicated prominence on the world stage and significant defence industries and capabilities. In place of threats and self-sacrifice, people began to demand more openness in society, more freedom of speech, transparency and democracy. Concessions have been won in the face of initial intransigence and substantial political change has occurred in all countries concerned.

This paper critically investigates from an analytical perspective the similarities and differences between the development paths of the countries involved with a view to drawing some conclusions about the relevance of the development trajectories of the earlier for the prospects of the later states.

Literature Review

The discourse defining the East Asian Development Model was framed in the 1980s, when people interested in development around the world were focused on events in the Newly Industrialising Economies (NIEs) of South Korea, Taiwan, Singapore and Hong Kong (Berger, 1988). The astonishing success of the NICs had become one of the most urgent topics in the study of economic growth and development and its processes were being charted by the World Bank (1993). Initially, authors shied away from the obvious fact that the NICs had achieved their growth by systematically ignoring advice from the IMF, World Bank and other representatives of the neoliberal consensus and instead resolutely created state-led development models featuring extensive government intervention in markets (Rodrik, 1994).Instead, development scholars mused on the possible importance of cultural factors and the 'miraculous' nature of what was in reality the hard work of a generation of workers sensibly directed by government. This also had an international political perspective because of the attempts, mainly by

Japanese writers, to try to reinvent the Flying Geese model of development (Kojima, 2000), which was originally based on Kaname Akematsu's work in the 1930s, when Japan was a colonial power in East Asia and much hated for it (Akamatsu, 1935). The role of the World Bank itself came into consideration when the question of whether its scholars had overstated the importance of its own much-touted 'market-friendly' approach in guiding East Asian states (Rodrik, 1994; Wade, 1996; Amsden, 1994). Some scholars went so far as to make the connection between the ideology behind the Bank's report and the Washington Consensus and make the claim that its downfall is inevitable (Gore, 2000). However, vampire-like, neoliberalism continues to rise from its coffin despite all the stakes hammered through its body.

As for the cultural approach, this seemed all too quickly to slide into scarcely-credible theories of essentialism (cf. e.g. Fukuyama, 1996). In its place came considerations of the practical nature of the changes brought about in the region (Krugman, 1994; Stiglitz, 1996). Policy prescriptions drawn from this means of thinking varied from author to author but generally cohered around a series of government-led (or at least influenced) activities that also enabled actors and institutions within the societies involved to act together in a coordinated manner. Some claimed that there was nothing new in the approach employed by the NICs and, in fact, their success was simply a result of static neoclassical gains arising from factor accumulation and sectoral reallocation of resources (Young, 1994). Such approaches failed to incorporate the societal, geographical and political factors that also were influential in shaping the climate in which rapid growth could take place and the political will and social consensus to make sure that it did take place (Walsh, 1997).

In terms of labour market regimes, there are three basic approaches: an Anglo-American or Anglo-Saxon model which places the onus for improvement or adjustment to change on the individual and restricts the state to a non-interventionist role, a Continental European or Scandinavian model in which the state works with the corporate sector to maintain employment and to train and retrain workers in the aims of long-term stability, with a third approach known as the East Asian regime, in which the state dictates developmental objectives to corporations who are then tasked with carrying them out and training the workers as they see fit. In this approach, corporations are implicitly or explicitly offered preferential access to state resources as an incentive (Abrahart and Verme, 2001). The degree to which corporations may select a different type of labour market regime has been much debated (e.g. Traxler and Woitech, 2000), as has the behavioural impact of different kinds of active labour market policies (e.g. Rosholm, and Svarer, 2008) and the constant interaction between the ways in which labour market regimes are reproduced and political changes and vagaries (e.g. Kemmerling and Bruttel, 2006).

Findings: Establishing the East Asian Economic Model

Similarities

The rise of East Asia to economic ascendancy has taken place since the conclusion of WWII. Fearing that Japan might lean towards a Communist revolution, the US authorities opened their markets to Japanese exports manufactured in Japanese factories unencumbered with worker's rights, health and safety issues or intellectual property protection. A huge boost to the region was provided by the outbreak of the Korean Civil War, which offered opportunities for contracts with local manufacturers in a variety of fields, the chance to send troops to the combat zone in return for concessions and the development of recreation facilities for US and allied troops in several convenient port locations. Subsequently, the Korean economy received a similar boost through its role in the Second Indochina War (or Vietnam War). Manufacturing was based on original equipment manufacture (OEM) products – that is, items with any embedded intellectual property belonging to non-national interests and with competitiveness provided by low labour costs. In Japan, followed by Korea, Taiwan, Thailand and now China and Vietnam, these low labour costs have been managed by moving workers into the manufacturing sector from the large and under-employed agricultural sector and by suppressing rights of association, collective bargaining and freedom of speech. The roots of many an East Asian economic so-called miracle have been refreshed with the blood of inconvenient trade unionists.

In due course, the success of economic development led to generally rising standards of living that eroded low labour cost competitiveness, although some have sought to wring the maximum possible value from this asset through the use of force. Eventually the governments of Japan, Korea and Taiwan, in particular, have realized that the model no longer has meaningful application in their countries and have orchestrated a qualitative change in economic and social structure: to add value to production through creativity is benefited by (a sometimes limited form of) democracy, better advanced education institutions and social solidarity. Autocrats have been replaced, therefore, and occasionally jailed for such crimes as corruption, abuse of power and so forth. Seizure of assets from those involved demonstrates that the state will no longer tolerate the methods of the past.

In the western world, states are broadly divided between those who place the onus for development and welfare on the shoulders of the individual, anticipating that small government will enable corporations and hence jobs to flourish (Anglo-Saxon model) and those which work in conjunction with the private sector to ensure that developmental goals are met by a partnership (European or Scandinavian model). In the latter, corporations work with government to provide more or less guaranteed employment, while the state ensures that the employees involved receive the training the need at the state's expense. When it came to East Asia, while states would have preferred to have followed the European model, they lacked the resources to do so. Unable to trust corporations to do the right thing for the country of their own volition and unable to provide training and development itself, the state made a bargain with the private sector: meet developmental goals and the state will turn a blind eye to the methods, while instigating a legislative framework and institutional arrangements that would permit corporations to do whatever was necessary. In Japan and Korea, therefore, Confucian paternalism created long-term employment contracts without which workers could fall rapidly into indigence. Corporations were alternately cajoled and bullied into abiding by the social contract into which they had entered with the state. Naturally, those corporations took advantage of the latitude offered to them by engineering situations in which, in the future, they could ensure that they were free from state controls. Overseas investment in everything from industrial estates to bonds to luxury consumer goods placed funds beyond the reach of home state governments. In Thailand, for example, the extremely large and diversified Charoen Pokphand Corporation has effectively removed itself from state supervision by moving its locus of control to its investments in a Chinese economy now fully embarked on its own East Asian Economic Model. The same was achieved to a lesser extent in Singapore and Taiwan, where the state preferred to act through government-linked firms which offered extensive ties and connections between partners that were difficult to unravel unilaterally.

Now, in the Mekong region in particular, one of the principal dynamic features affecting economic growth is the use of overseas Chinese organizations to help bring about developmental goals of the Chinese state: e.g., securing long-term, stable access to required resources and developing the physical infrastructure that will facilitate the distribution of Chinese goods and services. It will be of considerable interest and importance to observe the extent to which these overseas corporations will in due course be able to exercise any form of autonomy in their own right or whether the central government will continue to exercise its will from afar.

There is some evidence to indicate that both Laos and Cambodia are entering into versions of their own of the East Asian Economic Model. Laos is as ever challenged by the small size and dispersed nature of its population and the lack of infrastructure that continues to make imported goods cheaper than any locally-produced substitutes. Cambodia has obtained more success in its garment-manufacturing industry in particular, even though the international political environment is now in a state that makes it less likely that western countries will willingly open their markets to cheap overseas goods. Both these countries have governments that, for quite well known reasons, are able to enforce considerable influence over the nature, extent and scope of economic activities that take place within their borders. The same of course is true of Burma, where conditions exist in the wake of the relocation of the capital to establish industrial estates where less-squeamish investors from China, Singapore and so forth can set up their manufacturing operations. However, to date this has not occurred on any meaningful scale, presumably at least in part because the ruling junta is concerned about loss of influence and power on its own behalf.

Vietnam, meanwhile, has embraced this form of growth on a significant scale. The large Vietnamese rural and agricultural population makes such a move both feasible and attractive. The country's comparatively recent readmittance to international diplomatic circles and multinational organizations has provided the prospect of new markets and, since it is not China, it appears more attractive to certain western states. As a yet young country, in terms of demographics, there appears to be a generation of growth to be obtained in this matter and, assuming the government is able to identify and meet suitable developmental goals, its monolithic nature is likely to facilitate the transition into a future state of growth.

What could go wrong is evident from the current condition of the Thai economy. The previous Thai Rak Thai administration had identified the vulnerability of the economy to external shock in the wake of the 1997 crisis and the rise of China, together with the demographic changes in the country leading to fewer younger and more elderly people as being symptomatic of the end of the practicality of the East Asian Economic Model. It initiated steps to move towards a new phase of economic growth by strengthening regional and local community development, upgrading alternative forms of competitiveness and aiming to restructure the relationship between the private and public sector. In order to find a pretext for the 2006 military coup which brought an end to Thai Rak Thai, the junta categorized these policies not just as 'populist' and hence unaffordable and undemocratic but also 'corrupt.' Prosecutions were brought in new courts with new types of offence and assets were seized in the usual way that follows military coups. Since then, a coalition of right-leaning Democrats was formed with those members of the former government willing to swap sides in return for substantial contributions. This new administration seems to have little understanding of the need for change in the Thai economy. The response to the 2008 economic crisis has focused almost entirely upon export industries and even this effort has been undermined by the continuing rise in value of the baht. Any attempt to promote creativity in industry and society is being suppressed by an enormous campaign of censorship and repression and the use of laws giving extensive freedom of action to security forces under the nominal control of shadowy committees. In this case, it is perhaps fortunate that so much of the state sector in Thailand is involved in the replication of effort and empire-building, since this has meant that at least some agencies have been making progressive efforts.

Having considered the similarities between the trajectories of previously developed states and the newer wave of emerging states, it is next necessary to consider the differences.

Differences

Areas of difference that prevent the replication of trajectories of earlier developing economies from later ones include: the Cold War and the availability of preferential export market access; spatial arrangements and structures; availability of international capital; development of infrastructure and the diffusion of technology.

Cold War: as observed by Berger (2003) among others, the first wave of East Asian industrialization took place during the Cold War and the region was considered crucial in the international struggle against the spread of Communism. In addition to providing the bulk of defence costs, the American state also provided preferential access to its home markets to East Asian allies. This greatly facilitated the rapid growth of NICs, as too did turning a blind eye to some incidences of reverse engineering and the use of non-tariff barriers to entry for goods moving in the reverse direction.

Spatial and Climatic Arrangements: most of northern East Asia suffers from low levels of water and a large proportion of land unsuitable for intensive agriculture. The countries are also required to import their own energy sources, given the lack of oil and gas hydrocarbons in the area. This is quite different to some of the Southeast Asian nations, where agriculture is flourishing and, despite incidences of low levels of productivity, represents a significant source of exports. Further, more discoveries of oil and gas in the Gulf of Thailand, Indian Ocean and South China Sea all suggest that further phases of modernization can take place with the assistance of comparatively cheap forms of energy.

Availability of Investment Capital: one major international investor during the early waves of rapid industrialization, after Japan itself had developed, was Japanese capital. This capital was used in outsourcing much of the Japanese manufacturing industry to Southeast Asia, notably to Malaysia and Thailand, This transfer of capital facilitated the creation of the EAEM in those countries and enabled them to create supportive small and medium-sized enterprises (SMEs) of their own which would supply the inwardly investing firms. This is particularly evident in the case of the automobile and automotive industrial sectors in Thailand, in which a number of SMEs have Japanese manufacturers as their sole customers. Some Japanese firms have been involved in apprenticeship schemes in which prized and comparatively scarce skilled Thai workers are given training in Japan as well as Thailand in return for signing long-term guarantees of employment. On the other hand, there is evidence to suggest that the inward investment of Japanese firms has, in Malaysia at least, had only a limited impact on the deepening of relationships within industrial sectors: that is, in the degree of connections between not just the international investor and direct sub-contractors but also second and third-order stakeholders (Yean and Hang, 2011). Such connections, if present, would help in the inwards transfer of technology and skills and the ability of the domestic economy to launch its own high-quality SMEs.

Diffusion of Technology: manufacturing in the 1950s until the 1980s was rather a different undertaking to the kind of manufacturing that is expected in the contemporary world (see, e.g., Lei, Hitt and Goldhar, 1996; Bo, 2003). Corporations need increasingly to take account of computerized systems, organizational flexibility, real-time connections with stakeholders and so forth. Even when developing countries manufacturing companies expect to participate on an OEM basis, they must at the very least anticipate international scrutiny. Both local and international monitors of corporate behaviour now report on workplace conditions and, even when suppression of workers' rights generally and of the media is enforced, stories can still be distributed widely owing to the availability of low cost photography, citizen journalism and internet connectivity. There are both opportunities and threats, in other words, for developing country companies in manufacturing and with respect to relationships with international investors.

Infrastructure Development: considerable effort has been spent on developing the physical transportation infrastructure such that it constitutes what is known as the Asian Highway Network: this network consists of both road and rail inks aimed at linking places of production and of consumption right across the continent. Inevitably, some links have proved more popular than others in terms of attracting investment, owing to the availability of evident market opportunities. The link between Bangkok and Kunming, for example, which also links Singapore with Shanghai, has been built comparatively quickly and has been accompanied by the opening of three new bridges across the Mekong River, the development of cross-border customs posts and linked industrial estates and special economic zones (Swe and Chambers, 2011: 34-5). By contrast, the East-West Economic Corridor (EWEC) has proved much less attractive, owing to the comparatively limited economic opportunities likely to arrive from linking Danang in central Vietnam to Vientiane in Laos and beyond, ultimately to India. There are also severe problems involving crossing Myanmar, resulting both from the role of the government and in the case of those areas in which ethnic minority insurgencies either resist the building of roads across what they consider to be their territory and, perhaps more importantly, will plan to exact tolls on those vehicles which may subsequently travel on such roads, just as they do on the existing north-south highway. The Network and generally improved infrastructure and legal considerations make for numerous new opportunities for firms and places of assembly and manufacturing to become connected with international capitalist networks.

Discussion

The uneven distribution of resources and capabilities with respect to both space and time have been described as being intrinsic to the nature of capitalism (Smith, 2010; Harvey, 2011). If this is the case, then there should be some predictable patterns in the changes in the relevant distributions and these could be used to try to plan for future employment and economic growth. The perhaps inevitable contradiction to this factor resides in the Schumpeterian creative destruction of capitalism itself, which as the name suggests destroys as much as it creates and often in unpredictable ways. This is particularly true when it comes to the only partially transparent nature of executive decisions taken in countries such as Cambodia and Vietnam and, indeed, the struggle between the political and feudal worlds in Thailand. In these cases, allocation of resources may not always appear to be rational. For companies willing to do business in oppressive countries such as Myanmar, then the appetite for silence and covertness in action is liable to be quite strong. The result is that what appears to be a manageable and predictable process, drawing on rational schemes to frame progress and development may not turn out that way on the ground.

However, the spread of international best practice in business management, as evidenced by the internationalization and to some extent the globalization of management through business schools, has contributed to stable management practices in most parts of the world. Business school graduates do not always, of course, make the best decisions for all stakeholders nor to calibrate the needs of competing stakeholder groups in an optimal fashion. This is most evident in the case of workplace relations and health and safety conditions.

Development taking place in the twenty-first century might be characterized as 'extremely late development' and, hence, subject to both opportunities and threats from that condition. The concertina effect placed upon life cycles of goods and services, in part resulting from advanced manufacturing technology, indicate the need for sub-contracting firms to join themselves to international networks at a comparatively high level. On the other hand, there is a great deal of widely available knowledge and skill available that will enable forms to take those steps as required. There is an interaction between these activities and pressure on the physical environment that has not, in the past, yielded positive results. Extensive logging, monocropping and the emission of pollution have come to meet increased incidences of flooding and attendant landslides and disease in ways that are currently unpredictable in nature. From a positive perspective, this represents opportunities for green technology and green manufacturing jobs, which may be provided within the domestic economies concerned. However, the record internationally to date does not inspire much confidence that these jobs, competencies and technologies will actually come into effect in the foreseeable future.

Conclusion and Suggestions for Future Research

Understanding and managing the processes of social and economic development remains one of the central concerns of governments in emerging countries. Development processes are the very local level are quite well-understood: families, communities and organizations have different but evident priorities which may compete with each other but are least known. Development priorities at the national level are also quite well-established, albeit that competition for scarce resources might make it more difficult than might be necessary for states to bring themselves onto the path of sustainable development. However, there are some difficulties, theoretical and practical, in linking corporate, social and state-centric development priorities at the regional or area level. This is the case when the regions concerned are either wholly internal or else cross-border or cross-multiple borders in extent. Managing this in the context of international integration through such measures as the ASEAN Economic Community is a significant issue for further study.

Much of Thailand's and, indeed, the whole of the Mekong region's labour markets, their policies and regimes, remain shrouded in a degree of secrecy. In part this is due to the prevalence of exploitation and abuse and in part it is due to lack of technical capacity and properly collected, collated and tabulated labour market data. There is a great deal of research required simply to establish baseline data before even the study of the interaction between labour market regimes and new policies can begin.

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