

The crisis of the NICs: fundamental, not transitional

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Introduction

East Asia's vaunted newly industrialising countries (NICs) are in trouble.

In 1990, Taiwan registered its lowest annual rise in GNP since 1982, while Korea was hit with a \$21 billion deficit on its current account after five years of surplus. While stocks plunged in both Taipei and Seoul, real estate prices sky-rocketed. Labour organising continues on a militant course in both countries, and citizens' movements have emerged to protest worsening income distribution, the erosion of agriculture, and the deterioration of the environment.

It is tempting to dismiss these developments as conjunctural crises or as transitional troubles on the way to developed country status, as many orthodox economists do. Upon closer analysis, however, these difficulties appear to stem from something more fundamental: the unravelling of the economic strategy that delivered impressive growth rates for more than two decades.

The current crisis of the NIC strategy of export-oriented, high-speed growth springs from the dangerous intersection of three trends:

The deterioration of the external trading environment due to rising protectionism;

The loss of export competitiveness owing to the NICs' continuing dependence on labour-intensive production after losing their edge in cheap labour;

And the eruption of the long-suppressed environmental, agricultural and political costs exacted by this pattern of growth.

The Impact of protectionism

The overriding dilemma of the so-called 'tiger' economies is that they continue to be heavily structured as export machines at a time when protectionism spreads in their main market, the US, and prevents them from enlarging their minuscule shares of the European and Japanese markets. In the scramble for substitute markets, the Koreans talk excitedly about the 'opening to the East.' But this is likely to be an illusion, since market-oriented austerity measures in Eastern Europe and the Soviet Union have significantly depressed purchasing power, thus eliminating these countries as significant mass markets, at least in the short and medium term.

Protectionism is not the only obstacle in the way of the NICs' pursuit of markets. Even if trade barriers had not risen in western markets and the NICs' currencies had not been forced to appreciate, their export competitiveness would still be eroded by their continuing addiction to labour-intensive production at a time that they have been priced out of the cheap labour market.

Pushed up by the rising cost of living, the drying up of rural labour reserves and effective labour organising, the average wage in Taiwan and Korea now stands at roughly three times that in Southeast Asia and ten times that in China. Not surprisingly, many Korean and Taiwanese manufacturers dependent on cheap labour for their export edge have followed the example of US and Japanese investors and relocated their operations to Southeast Asia and China.

The loss of the cheap labour advantage had, in fact, been anticipated by Korean and Taiwanese technocrats in the mid-eighties. They therefore advanced an offensive strategy of going 'high tech' - that is, shifting to more skill and technology-intensive production of higher value-added commodities like computers, microchips, optical disc drives, and videodisc players. This meant taking on the US and Japan directly.

Rhetoric, however, was not backed with hard cash. Taiwanese and Korean firms preferred to park their profits in real estate and the stock market rather than invest in risky research and development projects. Government spending in research and development remained pitifully low compared to levels in the US and Japan. Efforts to upgrade the educational system to produce more technical personnel were woefully inadequate, even as the brain drain to the US continued unabated. With only 32 engineers per 10,000 people, Korea is ill-positioned to compete with Japan, where the ratio is 240 per 10,000.

As a result, low-tech production continues to be the rule. Taiwan's famous 'computer industry' is actually a glorified description of the low-tech, labour-intensive mass cloning of easy-to-copy IBM models. Likewise, Korea remains, for the most part, a labour-intensive assembly point for high-tech Japanese components.

Korea's image of being a high-tech producer is belied by a few sobering realities: the best-selling Hyundai Excel may be Korea's best known export, but its body styling is Italian in origin, its engine is designed by Mitsubishi, and its transmission is both designed and manufactured

by Mitsubishi. Korean colour television sets may be competing toe to toe with Japanese products, but Japanese components account for 85 per cent of their value. Korea may be the world's fifth largest exporter of personal computers, but only the computer cabinet, claims the country's leading electronics journal, is actually made in the country.

These examples help explain why Korea's trade deficit with Japan is soaring, even as its trade surplus with the US declines. Unless there is a fundamental shift in economic strategy, the unenviable future that awaits Korea and Taiwan's 'high tech' producers is one in which high-cost Japanese components are assembled by high-cost but low-skilled Taiwanese and Korean labour with high-cost, licensed Japanese technology.

Agricultural and environmental implications

At the same time that protectionism and the inability to shake off the addiction to labour-intensive production have eroded their export competitiveness, Taiwan and Korea have been overtaken by the explosion of the long-suppressed internal costs exacted by the NIC strategy.

Nearly three decades of policies and incentives favouring export industry over agriculture have produced a deep crisis in the countryside, the main elements of which are rural incomes which are low relative to urban incomes, a depopulated countryside, an aging work force and low labour productivity. Now, an aggressive US trade offensive threatens to eliminate the protectionist mechanisms that stand between the survival of vital sectors of agriculture and their extinction. Beleaguered farmers have finally been roused into militant opposition to prevailing export-industry-biased economic policies by their belief that the destructive dumping of US agricultural surpluses is the quid pro quo for the continued access of Taiwanese and Korean manufactured exports to the US.

The environment, like agriculture, has absorbed the high costs of high-speed industrialisation. In both Taiwan and Korea, pollution controls were opposed by technocrats who viewed them as adding costs that would cut into export competitiveness. The result was a lethal combination of high-speed industrialisation and extremely lax or nonexistent environmental regulation that produced horror stories rivalling those from Eastern Europe, like the fact that much of Korea's tap water is unsafe to drink and a third of Taiwan's rice crop is unsafe to eat because of heavy metal content that far exceeds official tolerance levels.

Indeed, severe environmental degradation is beginning to boomerang on the export economy itself, threatening its productive capacity. In Taiwan, for instance, the outflow of toxic chemical wastes from upstream industries regularly results in the mass deaths of shrimps, fish and oysters produced by Taiwan's

downstream aquaculture industry, one of the island's major foreign exchange earners.

The environmental devastation of Taiwan has produced one of Asia's most effective environmental movements - one that has succeeded in delaying, if not stopping, the construction of more petrochemical and nuclear plants, which technocrats see as necessary to sustain export-oriented growth. More alarming to the Kuomintang authorities is the spread of anti-growth consciousness among the citizenry: 60 per cent of Taiwanese, a 1985 survey discovered, prefer environmental protection to economic growth.

Political implications

Finally, continued pursuit of the NIC strategy is proving to be politically very costly. For the strategy of export-oriented, cheap-labour dependent development may have delivered prosperity, but it has not secured popular legitimacy. This is a direct result of a historical choice made early on by the state and business elites: to implement the NIC strategy, they opted to secure the compliance of labour via the shortcut of repression rather than through more complex democratic mechanisms. The tremendous pressure that built up over two decades of tight authoritarian control finally forced political decompression in Korea and Taiwan in 1987. And when the new democratic politics arrived, it focused not on forging consensus on the strategy for economic growth, but on a polarised struggle over the benefits of past growth.

Militancy, not moderation, is the mainstream in Korean labour politics, a mood that was expressed by Lee So-Sun, one of the most revered figures in the labour movement. Asked if labour's wage demands were not posing a problem for Korea's export competitiveness, she replied: 'The government says the economy is successful. But only a few benefit from the economy...There is nothing in it for us.' Such militant class consciousness hardly lends itself to institutionalising western-style collective bargaining processes or forging a labour-management consensus on a new economic strategy.

With the benefit of hindsight, some Taiwanese and Korean technocrats are absorbing the bitter lesson that authoritarianism may deliver stunning growth rates in the short and medium term, but it ultimately chokes economic development.

Conclusions

In sum, it is undeniable that the NIC strategy of export-oriented growth delivered high-speed growth over the last 25 years. However, a lethal conjunction of international and internal developments is leading to the unravelling of the NIC model, leaving ailing tigers stranded on the perilous zone between the developed and underdeveloped worlds. It will take a new, bold set of

economic policies to keep them from sliding back to the Third World in the 1990's.

The elements of an alternative strategy are increasingly evident. These include emphasising income redistribution to expand the domestic market; forging a New Deal for agriculture; encouraging enterprises that combine profitability with ecological sustainability; establishing preferential trading and technological arrangements with Southeast Asia and Indo-china as a counterweight to both western protectionism and Japanese economic power; significantly stepping up research and development efforts and upgrading technical education; devising a targeted, as opposed to an indiscriminate, export policy that would allow the development of a firm industrial and technological base for selected manufactured exports. And, most important, institutionalising democratic decision-making at the very centre of economic policy-making.

The contours of the alternative economic agenda are discernible. Less obvious is the political will to break with the past policies. Indeed, it seems unlikely the currently dominant economic and political interests that devised and directed the implementation of the old NIC strategy will allow this necessary process of economic renovation to take place without resistance.

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