

GlobAsia – Asia between global and regional challenges

A Research Framework for the 'GlobAsia Research Group'
IDS Roskilde University
February 2005

The Asian region is growing increasingly self-contained in terms of trade and investment. Dynamic processes of economic transition in regional locomotives (and economic stagnation in Japan) have a strong impact on the economic transformation of the region, and indeed on world economic transformation. In the present research framework, we investigate the impact of these regional – and related global processes – for employees, companies and states in the Asian countries.

The research framework will focus on the following three research questions: Are the Asian development models irrelevant and obsolete or will they be able to adjust themselves to a new regional environment (regional networks and a strong China) as well as a new global environment (global networks and global fragility)? To what extent can global and regional production networks in Asia provide a vehicle for local development? Which are the consequences of a new global and regional division of labour for governance of labour markets, for skills and for human resource development policies in Asian countries?

The regional impacts on economic transformation, company performance, government policies and development models in the Asian countries under study, as well as the response of local actors to these challenges, constitute the central theme of the research framework. The countries planned for case-study work are Vietnam, Thailand, Malaysia, Singapore, Taiwan, China, South Korea and India. In addition, the consequences for the global economy of the strong economic transformation in Asia with regard to competition as well as complementary relations are also considered.

The research projects are organised around three sub-themes, which are described in the framework: (a) Transformation of Asian development models; (b) Global and regional networks; (c) Global and Regional Divisions of Labour, Skills and Knowledge Accumulation.

GlobAsia
International Development Studies, Roskilde University
Building 09.2. P.O. Box 260, DK-4000 Roskilde, Denmark
Email: GlobAsia@ruc.dk

Introduction: Asian dynamics.

A large group of Asian countries are characterized by impressive economic growth and outstanding economic development breakthroughs. While Japan's economic ascendancy goes far back, the development take-offs of 'the four little tigers' (Taiwan, South Korea, Hong Kong, Singapore) can be dated to the 1960s and 70s. In the 1980s, some ASEAN-countries showed rapid and sustained industrialisation (notably Malaysia and Thailand). Last, but not least, the 'Chinese Dragon' is awake. Over the past two decades she has gone through a swift and dramatic societal and industrial metamorphosis. China is already one of the most important 'industrial workshops' of the world; cheap Chinese exports have changed the global competitive landscape; and its seemingly insatiable appetite for primary commodities and other imports are influencing world trade and world prices too.

The development successes in Asia cannot be viewed as independent processes in individual countries. The growth dynamics of different countries reinforces one other, and a conspicuous process of integration of production, trade and investment takes place. National development processes and transformations are going on in a regional context and create a regional dynamic that must be studied in its own right. While regional integration in the Asian region is primarily an economic process, it has also found a political expression in the free trade agreements between the ASEAN nations and China. Moreover, South Korea and Japan are negotiating agreements with ASEAN, too.

United States and to a lesser extent Europe are still import markets for Asian exports. But increasingly the Asian countries trade among themselves and China has replaced USA as the most important trading partner for several Asian nations. For Asian neighbours the economic strength of China is a mixed blessing, involving both challenges and opportunities. On the one hand, the swift rise in Chinese imports and exports may lead to growth in trade and investment as well as in wages and welfare in these neighbouring countries. On the other hand, China may attract production, markets and jobs from other Asian countries.

High-wage countries like Taiwan and South Korea moved production facilities to China from the early 1990s and onwards. While their economies in many ways have benefited from this outsourcing, there are also worries about economic 'hollowing out' and loss also of hi-tech jobs. As for the ASEAN countries, they have already faced stiff Chinese competition for manufacturing activities and foreign direct investment for some time. Nevertheless, the rise of China does also create new markets for these countries, which, in turn, may reduce their dependence of finished-goods export to the West.

As a result of this regional transformation, and due to restructuring of the global production networks, *Asian development models* and their societal and institutional underpinnings are in the process of changing. Since the 1980s, these 'heterodox models' have emerged as challenges to traditional and orthodox ways of thinking about society, state and market in the West. It is a well-known fact that the outstanding economic successes of Taiwan and South Korea were positively influenced by strong state intervention and tight state-business interactions – the latter being coined 'crony capitalism' by orthodox economists. China is another example of economic success despite being organised along heterodox lines – at odds with the orthodox prescription. How shall these heterodox models be described, analysed and evaluated during a period of economic globalisation and stronger regional integration in Asia?

The Asian region may be on the verge to become a serious challenge to the economic global dominance of USA and Europe. The regional dynamic in Asia contributes to the creation of new kinds of production networks and commodity chains; new regional and global business networks

are emerging, and increasingly trans-Pacific transports links are surpassing the old core routes of world trade in the Atlantic. India is also undergoing a strong process of economic transformation. The Indian breakthrough in software may spread to other sectors. India's economic relations with East and Southeast Asia are still quite limited, but it may in the future choose to integrate in the emerging regional economic network in Asia. In short, a complex pattern of *Asian and global 'networks'* is emerging.

The above mentioned trends imply that Asian countries become part of *a new global and regional division of labour and jobs*. One aspect is relocation of jobs in labour intensive industries (e.g. textile and garment) as a result of regional outsourcing and the removal of the MFA (multi-fibre agreement). Another is 'outsourcing' of jobs from United States and Europe to Asian locations. This takes place not just in labour intensive manufacturing but also in more knowledge intensive industries such as software and business service (e.g. the Bangalore software cluster). A third, and somewhat related aspect, is upgrading of local skills and knowledge as Asian countries penetrate high-yielding export segments with high and dynamic barriers to entry.

Our research group will focus on the dynamics of the Asian Region, its role in global economic and political change, and the way single countries adjust and respond to the new regional and global challenges. This is a vast area of research, so the group will concentrate on three major issue areas. In the following, we will elaborate on the three fields of specialisation.

Our overall research questions are: (1) Are the Asian development models irrelevant and obsolete or will they be able to adjust themselves to a new regional environment (regional networks and a strong China) as well as a new global environment (global networks and global fragility)? (2) To what extent can global and regional production networks in Asia provide a vehicle for local development? (3) What are the consequences of a new global and regional division of labour for governance of labour markets, for skills and for human resource development policies in Asian countries?

1. Transformation of Asian Development Models

During four decades the so-called High-Performing Asian Economies in East and Southeast Asia have outperformed most other developing regions. Though they in many ways represent different 'varieties of capitalism' (models), they also have many similarities (the East Asian Model').

They have all become exporters of manufactured goods and have followed the same development trajectory from light industries to heavy industries and further to knowledge intensive manufacturing and service production. Over the past two decades, countries of East and Southeast Asia have had high rates of saving and investment (exceptions are the Philippines and partially also Taiwan.) This may be viewed as a necessity of late industrialisation, at least for the lower-end countries.

In relation to exporting, they have all started competing within export-markets with low barriers to entry, while they were attempting to undertake industrial upgrading to conquer market segments and move into high-profit yielding export markets. The first generation 'industrialisers' have come closer to the stage of transition into high-profit yielding activities over the past decade while the economies of Southeast Asia and China still are dominated by low-profit-low-barriers-to-entry export production.

The states in the region have intervened in the economy in order to promote economic upgrading in ways that are not in accordance with the prescription of neoclassical economics. What is more, this intervention has to a large extent been successful. (There are however important exceptions, both with regard to the extent of intervention, and with regard to its success.)

A first focus is how processes of trans-nationalisation in the sphere of production have impacted upon the Asian model(s). This may be straining the strong role of the state in national East Asian development models and the local institutional political and economic foundation of strong state involvement. On the other hand, internationalisation with state guidance may co-exist with the strong state and its local foundations. We propose that this depends on whether the inclusion process has been prepared and promoted by government policies (which should go further than welcoming foreign investors), or whether integration took place independently of government policies. A related issue is whether global or regional web formation (see below) makes the notion of ‘national’ models or ‘sub-national’ models (e.g. clusters) less relevant. Company adjustment to global standards may weaken previous national corporate models, or the linking up to global webs of production by producers at a sub-national level may enhance national diversity.

A second focus regards how financial flows impact upon the Asian model(s). Apart from strong state involvement, high rates of saving and investment were identified as characteristic features of ‘the East Asian model.’ This model is efficient in mobilizing swift capital accumulation. Yet it is also vulnerable to financial crises for a number of reasons, especially when domestic savings are supplemented with foreign capital transfers in the form of volatile financial flows and national financial systems and capital accounts are deregulated to attract the flows. These problems became apparent during the 1997/98 regional financial crisis. In the aftermath of the crisis, countries in the region have been hoarding central bank reserves in response to the lesson of 1997 when maturing foreign debt exceeded central bank reserves. However, the emerging regional ‘hoarding model’ with large current account surpluses, the build up of central bank reserves and ensuing local money and credit creation is vulnerable to economic overheating with over investment and asset price inflation. Further, the model is based on a highly vulnerable relationship with the United States, where regional central bank reserves mostly are invested in US government bonds to hold down the currency exchange rate and maintain export surpluses. The recent growth in intra-Asian trade which to a large extent is driven by China may however reduce this dependency on the United States. An investigation into the links between financial flows and Asian models should therefore look into the vulnerabilities stemming from high current account surpluses.

Major issues of research are:

- Do the processes of trans-nationalisation (in the sphere of production) undermine the strong role of the state in national East Asian development models as well as the local institutional political and economic foundation of strong state involvement?
- Or can these processes of internationalisation co-exist with a strong state (and its local foundations) if combined with state guidance and strong domestic institutions?
- Do global or regional production networks make the notion of ‘national’ or ‘sub-national’ models irrelevant and outdated?
- How have East Asian government policies and development models been changed to overcome previous financial vulnerabilities, and how successful are these changes?
- How are East Asian models affected by their symbiotic relationship with a fragile US debt economy, and what impact is the economic ascendancy of China having on the East Asian–US relationship and East Asian development models?

2. Global networks – Asian Networks

Manufacturing of goods increasingly takes place in modes of organisation that cut across boundaries and which do not take the form of neither hands-off market relations nor hierarchical firm-internal relations. Boundaries between organisations (including firms) are more porous and relations between them more diversified. They may be competitors in specific areas while being alliance partners in others, resulting in a mosaic of organisational forms. The drive for asset exploitation and the search for profits thus increasingly take complex forms – networks. They are also named global production networks or global value chains.

Traditional FDI-driven TNCs (e.g. General Motors or Philips) remain important actors in these networks. They still organise the production through subsidiaries and joint ventures but increasingly they externalise their activities and work through inter-firm networks in R&D alliances, co-operative consortia, subcontracting relations etc. As a consequence they have no longer a hands-on approach to expansion and exploitation. The same is the case with transnational buyers (e.g. IKEA or WalMart) that drive global value chains but have no production themselves. They increasingly rely on ‘full package suppliers’ or ‘contractors’ who organise production both through in-house production and by means of complex layers of subcontractors. Thus, lead agents – producers and/or buyers – tend to retain control over at least one of its key intangible activities (product design, technology, marketing/branding, logistics) while increasingly farming out manufacturing and selected service functions to producers in developing countries.

The points of gravity in these global networks are shifting, too. There are strong forces drawing towards China and India. Off-shore outsourcing is increasingly oriented towards these two countries that have a base of increasingly competent suppliers across a broad range of industrial (and service) segments. Moreover, regional production networks (regional networks) that serve Asian markets are on rise. Finally, Chinese multinationals and Indian conglomerates have become significant regional players in several industries.

The expanding global and regional networks cover many fields of investigation. One is the question of where value production and value appropriation take place along the networks. Another is the dynamics of these networks and the interaction between global and regional networking. A further area is the particular characteristics of the global and regional service chains. The next area of investigation is the impact upon local learning dynamics and industrial upgrading. On the one hand, one may argue that it is easier for local firms to upgrade and reach more profitable positions because entry barriers to these networks are more permeable. It is particular the case with regional production networks that create more space for local learning dynamics. On the other hand, one may argue that the working of global networks marginalizes local Asian producers. This may also be the case when such producers have to adjust to Western standardisation and introduction of global codes of conduct. Conversely, the introduction of regional Asian standards may work to the advantage of Asian producers. A final area of interest is the role of local institutions, local policies and local firm strategies, that is how local Asian firms and institutions have adapted or responded to the new opportunities and constraints?

Major issues of research are:

- What are the links between the global production networks and the regional networks in Asia and what are the dynamics in these networks?
- To what extent and how does the global/regional service chains differ from those related to manufactured goods?

- To what extent can the global and regional production network in Asia provide a vehicle for local development? To what extent do they marginalize local Asian producers?
- How does governance of global and regional production networks interact with local industrial communities? What is the role of local institutions and local/national policy initiatives?

3. Global and Regional Divisions of Labour. Skills and Knowledge Accumulation.

As mentioned previously, the Asian NICs have followed an external export-oriented development model. They have exported mainly to the West – not to neighbouring countries in Asia. In recent years, intra-Asian trade have grown significantly. What impact will this have on regional and global division of labour, on the Asian labour markets and on industrial relations in Asia?

In the past, FDIs from the Western countries and Japan were based on a simple division of labour. TNCs placed the most labour-intensive processes in Asian countries either in their own subsidiaries or by outsourcing them to local manufacturing companies. In recent years, intra-Asian investments have expanded fast. As a consequence China, India and ASEAN countries increasingly take part in regional divisions of labour – both in the labour-intensive industries (e.g. change of WTO regime in textile and garment with China taking over more of production) and in knowledge-intensive industries (e.g. IT and life science).

With more regional integration of trade and investment, regional divisions and competition in labour markets will increase. In the first (NIEA) and second (ASEAN-4) generation of NICs – as well as in other leading Asian economies – there has been a widespread belief that if states succeeded in providing cheap labour, globalisation might become a leverage rather than a threat. This position was to some extent correct under the so-called New International Division of Labour – in which Southeast and East Asia became a more and more important sphere of the global economy. However, in the light of the increasing knowledge intensity of production, this wisdom is becoming problematic as these countries face an increasingly competitive global skill division of labour. The issue of labour costs is still important, but as countries penetrate high-yielding export segments with high and dynamic barriers to entry, competitiveness will be closely linked to the issue of the right skills. Arguably, the winners in the global competition are the ones who manage to build up robust knowledge-based societies. Conversely economic openness without strong skill- and knowledge-building institutions (in the broad sense) may lead to ‘hollowing out’ of the local economic base and to economic marginalisation.

The process and associated challenges described above span across a wide range of industrial segments. The increasing importance of the global skill division of labour combined with the so-called ‘tradability revolution in services’ has meant that many white collar activities, which were previously thought to be relatively bounded, have now become more footloose. This regards traditional services emigrating from the rich world (such as the outsourcing of back-office operations), but even some R&D -, design- and other knowledge-intensive functions for industrial production are in the process of being ‘off-shored’ to locations with the combination of low-wages with high skills.

A combination of stronger competition from China and overall increased knowledge intensity puts local institutions related to the development of knowledge and skills at the forefront. How does this transpire in the more advanced Asian economies? In other words, how do leading Asian economies respond to increasing competition in low-wage, knowledge intensive production with regard to the improvement of skills and knowledge-accumulation? One area of investigation is

firm-internal labour governance, including internal company division of labour and employee capability building strategies. Another is inter-firm governance of labour, including the division of labour in vertical 'network structures' (including linking, learning, and leveraging strategies) and more horizontal local/regional networks as sources of knowledge. A final research area is extra-firm governance of labour – in particular different types of state governance of labour (including labour market policies and other skill-related policies) and institutional structures across select Asian countries.

Major issues of research are:

- How is knowledge intensive work (as opposed to semi-skilled work) expanding in the countries under investigation?
- How are the current models of the organisation of labour and work geared to adopt the flexible organisational forms often associated with the learning economy (i.e. the continuous job shifts and skill upgrading, 'life long learning')?
- How is knowledge accumulation governed? And who are the central actors in this process (e.g. unions, company unions, management, the state, partnership institution, etc.)?



Asian Challenges

Asia between Global and Regional Dynamics

Lauridsen, Laurids S. (Professor)

The research of Lauridsen concentrates on the role of policy and institutional support for industrial upgrading in selected Asian countries. There is a particular emphasis on SME support, development of local supplier firms supporting industries (e.g. mould & die and plastic parts processing) and on industrial technology policies more broadly. The present research cuts across theme 1 and 2 but future research will deal more with labour issues (theme 3). Geographical focus: East Asian region, Thailand and Taiwan

Nordhaug, Kristen (Associate Professor)

Nordhaug's research investigates patterns of economic and political integration and financial development models in East Asia and how regional integration and development models are affected by the region's relationship with the United States and the economic ascendancy of China. Nordhaug's research is located within the network's theme A. Geographical focus: East Asian region

Fleming, Daniel (Associate Professor)

The role of knowledge intensive multinationals regarding knowledge transfer, human resource development and management-labour relations in Malaysia, Singapore and Thailand is the main focus of Fleming's research. The present project is a comparison of the impact of a pro-active versus a low active human resource development policy of the state on linkages and leverages of multinationals and domestic companies. Fleming's research is located within theme C focus. Geographical focus: Malaysia, Singapore and Thailand

Linde, Birger (Associate Professor)

Linde's research investigates the global impact of the current business cycle, from the technologically driven upturn phase in the 1990es to the phase of crisis/stagnation from 2001. A comparative historical and theoretical method is applied, comparing the present cycle with conspicuous crises in the 19th and 20th century. A cyclical as well as a structural view is taken, entailing an analysis of the industrial and financial shift of power between US and China/the broader Asian region. The dynamic rise of Asia is assumed to be a very strong force resulting in a substantial critical restructuring of the world economy. Linde's research cut across theme A and B.

Søborg, Henrik (Associate Professor)

Søborg's research focuses on institutional conditions for skill and organizational development in Southeast Asian countries. Special interest is on countries in transition from labour intensive to more knowledge intensive form of productions. Key themes of investigation are (1) the role of MNCs in knowledge transfer and development of human resources; and (2) public-private and domestic-foreign partnerships to support such transfer. These issues are primarily within theme C. Geographical focus: Malaysia, Singapore and Thailand.

Lema, Rasmus (Research Associate)

The focal point of Lema's work is the development Indian IT and service industries, centring on changing configurations of outsourcing relations. The relative importance of global and local inter-firm relations and institutional linkages in fostering capability-building is a key issue of research. In terms of the GlobAsia Groups's focal points, the research cut across theme B and C and the geographical focus is on India

Lehmann, Sanne (Cand. Scient, PhD)

The focus is how restructuring of global value chains influence knowledge sharing between global lead firms and Thai owned suppliers and contribute to firm level development, which locate Lehmann's research within the C theme. Furthermore, organisational barriers in relation to the socialisation and internalisation of knowledge are examined. A comparison between the automotive and the garment industries was carried out to shed light on the various ways in which global commodity chains are pinned down locally, in a Thai context. Geographical Focus: Thailand

Lindahl, Jakob (Cand. scient, PhD researcher)

Lindahl's project will focus on the sourcing dynamics of local and regional buyers in southern China and Vietnam. It aims to examine the emergent supermarket retail sector, which will most likely change the governance structure of retailers and suppliers in the region. Moreover, it could be expected that the requirement for food safety standards at the global market impacts the use of these standards locally and regionally. The project will examine the consequences of increasing vertical co-operation and use of hygiene standards, which could lead to a marginalization of wet markets and small-scale actors in the region. The research is located within the theme 2.