

The Impact of Globalization on the Trade and Investment Environment of Asian Countries and the Role of Government

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Preface

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I Preface

Globalization¹ has been going on since the beginning of the human history. The movements of people to new frontiers and the expansion of trade into remote areas can be said to be part of the process of globalization. Over time the scope has expanded, the content has deepened, and the speed has accelerated. A decisive turning point in the history of globalization in recent years was the end of the cold war from the collapse of the Berlin Wall in 1989 to the dissolution of the Soviet Union in 1991. This led to the removal of constraints on the economic activities within both blocs East and West and the greater integration of the world economy. This was accelerated by technology innovation and the information and communication revolution resulting from the peaceful utilization of military technology.

What leads to globalization ? As well as the spread of information and technology, the movements of people, goods and capital cause globalization and as a result, international trade, foreign direct investment and international labor migration increase. This promotes globalization on a world-scale. The rapid progress of transport, information and communication technology has played a significant role as the intermediate means. Globalization in recent years has been characterized, not only by quantitative changes, but also by qualitative ones.

Every social force has two aspects, and globalization is no exception. We witness world integration and universalization on the one hand, and localization and regionalism on the other hand. The rapid progress of regional integration, regional trade agreements and bilateral trade

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agreements can be said to be an aspect of anti-globalization. Glocalization which is the compound of globalization and localization, represents both phenomena and is the contemporary keyword.

The market mechanism and cultural values of Europe and America are becoming prevalent while the return to indigenous culture is also evident. The world is becoming unified economically, but multi-polarization goes on culturally. Economic expansion is indispensable for the progress of economic development, but culturally the force to sustain indigenous character also at work. Certainly, there are cultural changes, but the changes are rather slow compared with economic ones.

Economically, globalization is a process where the market mechanism becomes paramount and trade and investment liberalization takes place in individual economies. Naturally every nation faces mega competition, and Asia is no exception to this. Since the Asian region is progressing favorably, globalization is predicted to move faster here than other regions. The high economic growth rates achieved by Asian countries now are without precedent. Especially, the emergence of China and India which are the two most populous countries, is very significant.

It is not too much to say that the economic development of emerging economies in recent years has been attained thanks to the expansion of trade and foreign direct investment. We note that export-oriented industrialization in those countries has been implemented with the introduction of foreign direct investment, so trade and investment cannot be separated from each other at present. That is why the improvement in the trade and investment climate decides the rate of economic development in every nation.

How does the trade and investment climate in Asian countries change as a result of globalization? How do the changes affect the economic development in each nation? What are the new prerequisites for achieving economic development? What should be the role of government in the globalization age? There are many issues to be addressed. As globalization makes further progress, a different role for government is required. A new role for government responding to the needs of a new era must be explored. This paper attempts to address these issues.

The argument in this paper develops in the following way. First, we attempt to grasp the real condition of the global economy in terms of GDP and in terms of the movements of goods and services, capital, and people. Second, we look at the trends and nature of international trade and investment. Third, we examine the achievements and characteristics of Asia at the level of individual countries. By making comparisons among countries, each nation can draw ideas from the real situations and advanced policies in other economies. Fourth, we consider the changes of

the governments' role under globalization, the present stage of the implementation of their changes, and desirable future directions. Finally, we summarize the argument.

II Real Conditions in the Global Economy and Trends in Trade and Investment

1. Overview

Globalization has been making rapid progress since the 1990s and is expected to sustain its momentum due to the integration of the world economy that has been going on since the end of the cold war between 1989 and 1991, the acceleration of technological innovation and information and the communication revolution made possible by the peaceful utilization of military technology, the expansion of trade and investment liberalization, and of financial liberalization. Economically, it is reflected in the trends of GDP, and the movements of goods and services, capital, and people. The flow of goods and services is statistically grasped by international trade, the flow of capital by international investment, financial dealings and foreign exchange dealings, and the flow of people by migration, migrant workers, their overseas remittances, and international tourists.²

Global GDP increased 23.3 times from \$1,756 billion in 1965 to \$40,888 billion in 2004. The annual average growth rate of GDP was 4.1% during the 1960-1980 period, 3.3% during the 1980-1990 period, and 2.8% during the 1990-2003 period. These growth rates exceeded greatly those of 2.11% during the 1870-1913 period and 1.85% during the 1913-1950 period.³ We can enumerate the following factors for this high economic growth. The postwar period has been peaceful for 60 years without big wars, the economic foundations of each country have been established, human resource development has been making progress thanks to the spread of education and health, information and technological innovation has been accelerated, and globalization has brought these benefits to the late comers.

Merchandise trade showed an increase of 199 % from \$3.78 trillion in 1990 to \$7.5 trillion in 2003. The share of trade in GDP expanded from 32.5% in 1990 to 41.5% in 2003. It is also noted that a characteristic of trade in recent years is the expansion of the services trade. The services trade showed an increase of 191 % from \$940 billion in 1990 to \$1.8 trillion in 2003. The annual average growth rate of goods and services exports during the 1965-1997 period was 5.7% and exceeded greatly the 3.2% growth rate of GDP during the same period. The following reasons contributed to the rapid expansion of trade. First, GATT and WTO accelerated trade liberalization. Second, regional integration and regional trade agreements have contributed to the increase in trade since the 1990s. Third, export-oriented industrialization adopted by emerging

countries increased exports of manufactured goods. Fourth, export processing zones and other free trade zones worked as a mechanism for facilitating trade. Finally, we cannot neglect the entry of China and India into the international market.

The share of the flow of gross private capital in GDP increased more than twice from 10.3% in 1990 to 24.2% in 2003. The share of gross foreign direct investment (inflows and outflows) in GDP expanded from 2.7% in 1990 to 4.9% in 2003. Foreign direct investment (inflow) increased about three times from \$192.7 billion in 1990 to \$572.8 billion in 2003. A recent remarkable statistic is the active foreign direct investment into China which accounted for 9% of the world total in 2003. Foreign direct investment reached its peak of \$1,388 billion in 2000, declined drastically after the terrorist attack of September 11, 2001, but showed an increase in 2004. Compared with the active movement of private sector's capital, the flow of ODA in the public sector has been stagnant. The share of ODA by DAC members in Gross National Income(GNI) declined from 0.33% in 1992 to 0.25% in 2003. The total ODA by DAC members in 2003 was \$69 billion.

Regarding population movements such as immigration and the journeys of migrant workers, the number of those who were born in foreign countries increased by 20.8 million over ten years from 153.7 million in 1990 to 174.5 million in 2000. The absolute number increased, but the share of world population is the same at 2.9%. Population movement was restrained by state sovereignty compared with the movements of goods and capital. Some people moved voluntarily for economic reasons and others for political reasons. Their overseas remittances increased by 2.5 times from \$68.8 billion in 1990 to \$173 billion in 2003. The number of international tourists who left their countries increased by 170 million from 631.3 million in 1995 to 802.2 million in 2003.

In addition to globalization, the 1990s witnessed rapid regionalization and localization. An example of regional economic integration is the European Union (EU) which has 25 member countries as of October 2005, and is expected to expand its membership in the near future. There are 7 regional trade blocs covering developed and developing countries, 9 in Latin America and the Caribbean, 9 in Asia and the Middle East, and 12 in Sub-Saharan Africa.⁴

Regional trade agreements including bilateral ones have increased since 1990, and reached about 230 by the latter half of 2004 from only 50 in 1990. Trade among regional trade partners accounts for nearly 40% of the world trade. At present 60 agreements are under negotiation and the number is expected to increase further in the years to come. Regional trade agreements are classified into four levels of integration, free trade area, customs union, common market, and economic and monetary integration.⁵

We also note the rapid increase in bilateral investment agreements among countries. According to UNCTAD, bilateral investment agreements numbered 2,329 at the end of 2004.

2. Trends and Characteristics of Trade

Trade is said to be the engine of economic growth, and the expansion of trade and economic growth have a close interrelationship. The expansion of trade after the war exceeded economic growth rates greatly. It is clearly shown in Table 1 that postwar economic growth was brought about through the expansion of trade. When we look at the index with 1995 as 100, world GDP showed an increase of 7.2 times from 1950 to 2003 while merchandise exports showed the remarkable increase of 145 times. The breakdown of exports showed an increase of 23 times for agricultural products, 87.5 times for mining products, and 146 times for manufactured goods, and manufactured exports were the driving force of total exports.

Table 2 shows the expansion and regional trends of the world exports after the war. Merchandise exports of the world continued to increase consistently from \$58 billion in 1948, and reached \$7,294 billion in 2003. They increased by 125.8 times during the period. Exports by GATT/WTO members (148 as of October, 2005) increased from 60.4% in 1949 to 94.3% in 2003. These organizations played a crucial role in the expansion of trade. It should also be mentioned that export-oriented industrialization adopted by late comers contributed greatly to the expansion of manufactured exports.

Table 1 World merchandise exports, production and gross domestic product, 1950 - 2003
(index,1995 = 100)

年	Exports (value)				Exports (volume)				Production (volume)				World GDP
	total	a	b	c	total	a	b	c	total	a	b	c	
1950	1	5	2	1	6	20	14	3	17	34	27	12	17
1955	2	6	3	1	10	24	22	5	21	37	31	15	22
1960	3	7	4	2	14	33	31	8	28	45	42	22	27
1965	4	8	6	3	20	40	40	12	38	51	56	33	35
1970	6	11	10	5	31	49	62	21	50	58	71	46	45
1975	18	25	39	13	39	51	64	31	61	66	78	56	55
1980	40	51	106	29	52	68	73	42	73	72	94	70	68
1985	39	45	81	32	57	72	64	53	80	83	81	79	78
1990	68	71	92	65	76	80	80	73	94	92	94	94	93
1995	100	100	100	100	100	100	100	100	100	100	100	100	100
2000	125	94	158	126	140	117	118	145	120	114	110	123	117
2003	145	115	175	146	150	128	123	156	124	120	113	126	123

(Note) a=agricultural products, b=mining products, c=manufacturing

(Source) Compiled from WTO, *International Trade Statistics 2004*, 2004.

Table 2 World merchandise trade by region and selected economies, 1948, 1953, 1963, 1973, 1983, 1993, and 2003

	1948	1953	1963	1973	1983	1993	2003
<u>World</u> (billion dollars)	58.0	84.0	157.0	579.0	1838.0	3671.0	7294.0
<u>Region</u> (%)							
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North America	27.3	24.2	19.3	16.9	15.4	16.6	13.7
Latin America and the Caribbean	12.3	10.5	7.0	4.7	5.8	4.4	5.2
Mexico	1.0	0.7	0.6	0.4	1.4	1.4	2.3
Brazil	2.0	1.8	0.9	1.1	1.2	1.1	1.0
Argentina	2.8	1.3	0.9	0.6	0.4	0.4	0.4
Western Europe	31.5	34.9	41.4	45.4	38.9	44.0	43.1
C./E.Europe/Baltic States/CIS	6.0	8.1	11.0	9.1	9.5	2.9	5.5
Africa	7.3	6.5	5.7	4.8	4.5	2.5	2.4
South Africa	2.0	1.7	1.5	1.0	1.0	0.7	0.5
Middle East	2.0	2.7	3.2	4.1	6.8	3.4	4.1
Asia	13.6	13.1	12.4	14.9	19.1	26.1	26.1
Japan	0.4	1.5	3.5	6.4	8.0	9.9	6.5
China	0.9	1.2	1.3	1.0	1.2	2.5	6.0
India	2.2	1.3	1.0	0.5	0.5	0.6	0.8
Australia/N Z	3.7	3.2	2.4	2.1	1.4	1.5	1.2
Six East Asian Traders	3.0	2.7	2.4	3.4	5.3	9.2	9.7
GATT/WTO Members	60.4	68.7	72.8	81.8	76.5	89.5	94.3

(Source) Compiled from UNCTAD, *World Investment Report 2005*, 2005.

A look at regional share also tells a story. The share of North America declined gradually from 27.3% in 1948 and to 13.7% in 2003. The share of Latin America also continued to decrease from 12.3% in 1948 to 5.2% in 2003. Western Europe increased its share from 31.5% in 1948, and reached its peak with 45.5%, signaling the postwar recovery but after that its share declined to 43.1% in 2003. Central and Eastern Europe repeated this decrease and increase, showing 5.5% in 2003 while Africa decreased consistently from 7.3% in 1948 to 2.4% in 2003. The share of the Middle East fluctuated in recent years, showing 4.1% in 2003.

Interesting is the case of Asia. It's share declined from 13.6% in 1948 to 12.4% in 1963, but continued to increase after that, recording 26.1% in 2003, almost double that of 1948. The breakdown clearly shows differences of economic development by country. Japan's share was only 0.4% in 1948, but increased to 6.5% in 2003. China's share was 0.9% in 1948, reached 2.5% in 1993 and increased to 6.0% over the past decade. India was proud of a high share with 2.2% in 1948, but gradually decreased her share to 0.5% in 1983 and then started to increase, showing 0.8% in 2003. The share of Australia and New Zealand decreased from 3.7% in 1948 to 1.2% in 2003. The share of six East Asian Traders comprising Hong Kong, Malaysia, Korea, Singapore, Taiwan and Thailand decreased from 3.0% in 1948 to 2.4% in 1963, but started to

increase after 1973 and increased to 9.7% in 2003.

Characteristics of trade in recent years are the expansion of inter-firm and inter-industry trade, and the increasing share of Asia due to the rise of China and India. Furthermore, the growing service sector within the industrial structure led to the expansion of the services trade. We can also point out the expansion of export processing zones as a mechanism for export promotion. The number of export processing zones increased from 79 in 25 countries in 1975, 176 in 47 countries in 1986, 500 in 73 countries in 1995, 845 in 93 countries in 1997, and 3,000 in 116 countries in 2002.⁶

3. Trends and Characteristics of Foreign Direct Investment

In recent years international investment has increased in importance together with trade. International investment is classified into foreign direct investment and foreign indirect investment. More important is the role of long-term foreign direct investment (FDI). FDI has had tremendous economic impact on host countries in terms of technology transfer, foreign currency earnings, employment creation and tax revenues. Export-oriented industrialization strategies by late comers have been implemented together with the introduction of FDI. It is noted here that FDI reached its peak in 2000, but decreased after the terrorist attack of September 11, 2001, and finally showed an increase again in 2004.

Table 3 and 4 show FDI inflows and outflows. As can be seen in Table 3, both FDI inflows and outflows increased annually. FDI inflows were \$648 billion and FDI inward stock was \$8,902 billion in 2004, while FDI outflows were \$730 billion and FDI outward stock was \$9,732 billion.

The great contributors to FDI are multinational corporations (or trans-national corporations). According to UNCTAD, multi-national corporations had 69,727 parent companies and 690,0034 affiliates at the end of 2004. In 2004, sales, gross product, total assets, exports, and employment of foreign affiliates were \$18,677 billion, \$3,911 billion, \$36,008 billion, \$3,690 billion and 57.39 million respectively. These figures showed a tremendous increase on those of 20 years ago. (Refer to Table 3.)

There are several multinational corporations whose sales exceeded the GDP of a country. Comparing the sales of corporations and GDP of countries in 2004, Wal Mart, BP, Shell, and Exxon Mobile, which are the world's top corporations, are located between Austria (21st in world GDP) and Indonesia (ranking 22nd). Toyota with \$163.6 billion sales is located between Portugal (ranking 31st with GDP of \$168.3 billion) and Thailand (ranking 32nd with GDP of \$163.5 billion).⁷

The regional distribution of FDI is shown in Table 5. The FDI inflows were \$180.8 billion in developed countries and \$118.6 billion (Asia occupying 62%) in developing countries on an annual average between 1992 and 1997, but recent years saw a greater inflow towards developed countries, showing \$366.6 billion in developed countries and \$172 billion in developing countries in 2003. FDI outflows show that more originated from developed countries with \$569.6 billion, compared with the \$35.6 billion from developing countries. .

The characteristics of FDI in recent years are as follows. FDI showed a favorable increase until 2000, but declined drastically in 2001 due to the September 11 incident and then continued to decline, recovering only in 2004. Regionally, the expansion of Asia is remarkable and Asia had already recovered by 2003. The emergence of China and India contributed to the increase of FDI to Asia. In addition, each nation has made efforts to improve her investment climate. The system framework to promote investment such as the establishment of Investment Promotion Agencies and export processing zones, and bilateral and regional investment agreements, has played a crucial role.

In 2004, World GDP was \$34,491 billion. World trade with \$15,104 billion occupied 15.1% of that GDP. FDI inflows with \$648 billion accounted for 2% of that GDP, and FDI outflows with \$730 billion accounted for 2.1%. The total production of multinational corporations accounted for 10% of world GDP. All increased their shares gradually and are expected to increase in the coming years.

Table 3 Selected indicators of FDI and international production, 1982-2004

	Value at current prices (billion of dollars)				Annual growth rate (per cent)				
	1982	1990	2003	2004	1986-90	1991-95	1996-2000	2003	2004
FDI inflows	59	208	633	648	22.8	21.2	39.7	-11.7	2.5
FDI outflows	27	239	617	730	25.4	16.4	36.3	-5.4	18.4
FDI inward stock	628	1769	7987	8902	16.9	9.5	17.3	19.1	11.5
FDI outward stock	601	1785	8731	9732	18.0	9.1	17.4	19.8	11.5
Cross-border M&As	.....	151	297	381	25.9	24.0	51.5	-19.6	28.2
Sales of foreign affiliates	2765	5727	16963	18677	15.9	10.6	8.7	18.8	10.1
Gross product of foreign affiliates	647	1476	3573	3911	17.4	5.3	7.7	28.4	9.5
Total assets of foreign affiliates	2113	5937	32186	36008	18.1	12.2	19.4	3.0	11.9
Exports of foreign affiliates	730	1498	3073	3690	22.1	7.1	4.8	16.11	20.1
Employment of foreign affiliates (thousands)	19,579	24,471	53,196	57,394	5.4	2.3	9.4	11.1	7.9
GDP (in current prices)	117,580	226,100	363,270	406,710	10.1	5.2	1.3	12.1	12.0
Gross fixed capital formation	23,980	49,050	78,530	88,690	12.6	5.6	1.6	12.9	12.9
Royalties and license fee receipts	90	300	930	980	21.2	14.3	8.0	12.4	5.0
Exports of goods and non-factor services	22,470	42,610	92,160	110,069	12.7	8.7	3.6	16.1	20.1

(Source) Compiled from UNCTAD, *World Investment Report 2005*, 2005.

Table 4 Regional distribution of FDI inflows and outflows, 1992-2003 (Billion of dollars)

	FDI inflows							FDI outflows						
	1992-97 a. average	1998	1999	2000	2001	2002	2003	1992-97 a. average	1998	1999	2000	2001	2002	2003
Developed countries	180.8	472.5	828.4	1108.0	571.5	489.9	366.6	275.7	631.5	1014.3	1083.9	658.1	547.6	569.6
Western Europe	100.8	263.0	500.0	697.4	368.8	380.2	310.2	161.7	436.5	763.9	859.4	447.0	364.5	350.3
E U	95.8	249.9	479.4	671.4	357.4	374.0	295.2	146.9	415.4	724.3	806.2	429.2	351.2	337.0
Others	5.0	13.1	20.7	26.0	11.4	6.2	15.1	14.8	21.2	39.6	53.3	17.9	13.3	13.3
Japan	1.2	3.2	12.7	8.3	6.2	9.2	6.3	20.2	24.2	22.7	31.6	38.3	32.3	288
U.S.	60.3	174.4	283.4	314.0	159.5	62.9	29.8	77.6	131.0	209.4	142.6	124.9	115.3	151.9
Developing countries	118.6	194.1	231.9	252.5	219.7	157.6	172.0	51.4	53.4	75.5	98.9	59.9	44.0	35.6
Africa	5.9	9.1	11.6	8.7	19.6	11.8	15.0	2.2	2.0	2.6	1.3	-2.5	0.1	1.3
Latin A. & Carib.	38.2	82.5	107.4	97.5	88.1	51.4	49.7	9.5	19.9	31.3	13.7	12.0	6	10.7
Asia and the Pacific	74.5	102.4	112.9	146.2	112.0	94.5	107.3	39.6	31.6	41.6	83.9	50.4	37.9	23.6
Asia	74.1	102.2	112.6	146.1	111.9	94.4	107.1	39.6	31.6	41.7	83.8	50.3	37.9	23.6
West Asia	2.9	7.1	1.0	1.5	6.1	3.6	4.1	0.5	-1	2.1	3.8	5.1	2.5	-0.7
Central; Asia	1.6	3.0	2.5	1.9	3.5	4.5	6.1	-	0.2	0.4	-	0.1	0.8	0.8
South,East &S.E.A	69.6	92.1	109.1	142.7	102.2	86.3	96.9	39.0	32.5	39.2	80.0	45.1	34.7	23.5
South Asia	2.5	3.5	3.1	3.1	4.0	4.5	6.1	0.1	0.1	0.1	0.5	1.4	1.2	0.9
The Pacific	0.4	0.2	0.3	0.1	0.1	0.1	0.2	0.1	-0.1	-	0.1	0.1	-	-
Central &E. Europe	11.5	24.3	26.5	27.5	26.4	31.2	21.0	1.2	2.3	2.5	4.0	3.5	4.9	7.0
World	310.9	690.9	1086.8	1388.0	817.6	678.8	559.6	328.2	687.2	1092.3	1186.8	721.5	596.5	612.2

(Source) Compiled from UNCTAD, *World Investment Report 2004*, 2004.

III Trade and Investment Achievements and the Response to Globalization of Asian Countries

The high economic growth in Asia is remarkable when we compare with growth rates elsewhere. According to the long-term predictions of the World Bank⁸, per capita growth rates in the world were 1.3% in the 1980s, 1.1% in the 1990s, 1.6% between 2000 and 2006 and will be 2.15% between 2006 and 2015. Those of East Asia and Pacific were 5.8% in the 1980s, 6.3% in the 1990s, 6.0% between 2000 and 2006, and will be 5.3% between 2006 and 2015, while those of South Asia were 3.3% in the 1980s, 3.2% in the 1990s, 4.2% between 2000 and 2006, and will be 4.1% between 2006 and 2015. Both Asian regions exceeded greatly the world average in both past achievements and future predictions.

In Asia after the war, Japan achieved a miraculous recovery and joined the advanced club (OECD) in 1964. The next to come were the newly industrializing economies (NIEs, formerly called NICs) which achieved economic success with manufactured goods and export-oriented industrialization. The success of the NIEs comprising Korea, Taiwan, Hong Kong, and Singapore were followed by ASEAN countries such as Malaysia, Thailand and Indonesia. In recent years China, India, and Vietnam have achieved high economic growth rates.

As shown in Table 5, the growth of Asia in recent years is remarkable. Growth rates in 2003 were 6.7% for East Asia, 5.0% for Southeast Asia, and 7.8% for South Asia while those of 2004

were 7.8% for East Asia, 6.3% for Southeast Asia and 6.8% for South Asia. Sustainable high economic growth in both China and India with large populations has affected other economies favorably. GDP growth rates of China were 10.3% between 1980 and 1990 and 9.6% between 1990 and 2003 while those of India were 5.7 % and 5.9% respectively during the same periods. Export growth rates of China were 12.9% between 1980 and 1990 and 14.1% between 1990 and 2002 while those of India were 7.2% and 9.1% respectively during the same periods.

1. Performance and Characteristics of Trade

The share of Asia in world trade increased about twice from 13.6% in 1980 to 26.1% in 2003 as can be seen from Table 2. Table 5 looks at the recent movement of merchandise trade in Asian countries. The country which showed the largest increase in exports during the ten years from 1993 to 2003 was China. China's exports increased by 4.8 times to \$437.9 billion from \$91.7 billion and approached the \$471.8 billion of Japan. Those which rank in the top position for exports in 2003 are NIEs, Hong Kong with \$228.6 billion, Korea with \$193.8 billion, Taiwan with \$150.3 billion and Singapore with \$144.1 billion. Those which exceeded \$10 billion in exports were Malaysia with \$99.4 billion, Thailand with \$ 80.5 billion, Indonesia with \$60.9 billion, India with \$56 billion, the Philippines with \$36.5 billion, Vietnam with \$20.2 billion, and Pakistan with \$11.9 billion.

The above countries are listed among the leading exporters in world merchandise trade in 2003. Japan ranks third behind Germany and the United States, with China fourth, Hong Kong 11th, Korea 12th, Taiwan 15th, Singapore 16th, Malaysia 20th, Thailand 24th, Indonesia 30th, India 21st, Philippines 23rd, and Vietnam 49th.⁹

A look at growth rates shows that Vietnam showed the largest increase with 6.8 times, followed by Cambodia with 5.9 times, China with 4.8 times, Myanmar with 4.4 times, the Philippines with 3.3 times, Maldives with 3.2 times, Bangladesh with 2.7 times, India with 2.6 times , and Thailand with 2.2 times. All these countries exceeded twice over the world average during the same period.

We can point out the expansion of the services trade as a characteristic of trade in recent years and the same trend is observed in Asia as well. A look at the services trade by country in 2003 shows that Japan occupied a dominant position with \$70.6 billion, followed by China with \$46.4 billion, Hong Kong with \$44.6 billion, Korea with \$31.3 billion, Singapore with \$30.4 billion, India with \$25 billion, and Taiwan with \$23 billion. It is noted here that India increased by 5 times from \$5 billion in 1993, and China by 4.2 times from \$11 billion in the same period. Other countries which exceeded \$10 billion were Thailand with \$15.7 billion and Malaysia with \$13.4

billion. A look at the top 40 countries in the world shows that Japan ranked 7th, China 9th, Hong Kong 10th, Korea 17th, Singapore 18th, India 21st, Taiwan 23rd, Thailand 28th, Malaysia 29th, and Indonesia 40th.¹⁰

Growth in real trade less growth in real GDP between 1990 and 2003 shows that Vietnam recorded the highest growth with 15.0%, followed by Cambodia with 10.7%, India with 6.9%, Korea with 6.2%, Bangladesh with 4.6%, Hong Kong with 3.5%, Malaysia with 3.0%, Thailand with 2.8%, Japan with 2.7%, the Philippines with 2.7%, Sri Lanka with 2.5%, Indonesia with 0.6%, and Pakistan with -0.9%.¹¹ This ranking shows the difference in trade expansion among countries very clearly.

We can say from the above that almost every nation exceeded the world average in export expansion, with new comers joining the successful group, and stimulating each other.

Table 5 Main indicators in Asian countries

	Pop. million 2003	GDP growth rates				GNI (2003)		Exports g.r. (%)		Merchandise exp/ million \$		Services exp. million \$	
		1980 -1990	1990 -2003	2003	2004	\$billion per capita\$		1980-90	1990-2002	1993	2003	1993	2003
<East Asia>				6.7	7.8								
Japan	127	3.9	1.2			4,390	34,510	8.9	2.9	362,244	471,817	51,611	70,624
China	1,281	10.3	9.6	9.3	9.5	1,417	1,100	12.9	14.1	91,744	437,899	10,992	46,375
Hong Kong	7	6.8	3.7	3.2	8.1	173	25,430	16.7	6.7	135,385	228,654	27,690	44,624
Mongolia	2	5.4	-1.3	5.6	10.6	1	480	...	...	383	516	26	200
Korea	48	9.0	5.5	3.1	4.6	576	12,020	15.1	8.4	82,236	193,817	12,479	38,964
<S.E.Asia >				5.0	6.3								
Indonesia	212	6.1	3.5	4.9	5.1	173	810	-0.9	6.9	36,823	60,955	3,878	.....
Philippines	80	1.0	3.5	4.5	6.0	88	1,080	4.3	15.9	11,129	36,502	4,617	2,955
Thailand	62	7.6	3.7	6.9	6.1	136	2,190	14.3	8.9	36,969	80,522	10,877	15,670
Malaysia	24	5.3	5.9	3.6	7.1	94	3,780	8.8	10.0	47,131	99,369	6,294	13,459
Singapore	4	6.7	6.3	1.4	8.4	90	21,230	10.0	7.7	74,012	144,127	18,498	30,418
Brunei	0.35									2,167	4,350	....	...
Vietnam	81	4.6	7.5	7.1	7.5	39	480	...	...	2,985	20,176	772	...
Myanmar	49	0.6	7.4	13.8	12.6			-7.3	15.9	586	2,600	235	...
Laos	6	3.7	6.3	5.9	6.9	2	320	11.0	11.1	241	378	55	...
Cambodia	12	...	6.5	7.0	7.3	4	310	...	...	284	1,690	59	...
Timor-Leste	0.79	3%(2002),-2%(2003)											
<South Asia>				7.8	6.8								
India	1,048	5.7	5.9	8.5	6.9	568	530	7.2	9.1	21,572	55,982	5,034	25,043
Pakistan	145	6.3	3.6	4.8	6.4	69	470	8.0	4.0	6,720	11,930	1,330	1,485
Bangladesh	136	3.7	4.9	5.3	6.3	55	400	7.8	15.7	2,545	6,942	435	404
Sri Lanka	19	4.0	4.7	5.9	6.4	18	930	5.1	8.9	2,859	5,125	619	1,385
Nepal	24	4.6	4.6	2.9	3.2	6	240	8.1	9.5	384	662	284	267
Maldives	0.29			8.4	8.8	0.7	2,300			35	113	158	402
Bhutan	0.8			6.5	6.8	0.6	660			65	120	25	...
World	6,201	3.3 (a)	2.8 (a)			34,491	5,500 (a)	4,251,942 (1990)	7,479,592 (2003)	37,770	75,030	9,406	17,965

Note : (a)average

(Source) Compiled from The World Bank, *World Development Report 2001 & 2005*. and *World Development Indicators 2005*, 2005. ADB, *Asian Development Outlook 2005 Update*, 2005.WTO, *International Trade Statistics 2004*, 2004.

2. Trends and Characteristics of Foreign Direct Investment

In Asia, the NIEs succeeded in economic development thanks to their export-oriented industrialization policies. They were followed by early ASEAN comers such as Malaysia, Thailand and Indonesia, then China, India, Vietnam, and late ASEAN comers. They have been implementing these policies with the help of incoming foreign direct investment. Each nation in Asian countries has been affected by the success of neighboring countries and has been in competition with them There is a virtuous circle that leads to well-rounded development and accelerates further development. The Asian economies appeared to have been stopped by the Asian crisis of 1997, but they took on growth momentum again after the adjustment of only 2-3 years.

Asia is the largest recipient of FDI among the developing regions. Developing countries received \$172 billion in 2003, out of which Asia accounted for 62% with \$107.1 billion. Asia's FDI recorded its peak with \$146.1 billion in 2000 corresponding to the world trend, but declined after 2001 and then recovered in 2003. (Refer to Table 4.) The rapid increase of FDI into Asia is because of China.

The largest recipient in 2002 was China with \$52.7 billion, followed by Hong Kong with \$9.7 billion, Singapore with \$5.7 billion, India with \$3.4 billion, Korea with \$2.9 billion, Malaysia with \$3.2 billion, Thailand with \$1.1 billion, and Brunei with \$ 1.0 billion. The largest recipient in 2003 was also China with \$53.5 billion, followed by Hong Kong with \$13.6 billion, India with \$ 4.3 billion, Korea with \$3.8 billion, Malaysia with \$ 2.5 billion, Brunei with \$2.0 billion, and Thailand with \$1.8 billion. The flows of FDI to China dwarf the flows of FDI into other countries.

A look at FDI stock in Asia shows that manufacturing with 51.0 % exceeded services with 43.0% in 1995, but the situation was reversed in 2002, with services at 50.0% and manufacturing at 44.0%. In 2002, those which occupied a large share in manufacturing were China with 63.3% and Korea with 57.4% while those which exceeded the average in services were Hong Kong with 93.0%, Macao with 87.4%, Pakistan with 71.7%, Singapore with 63.8%, Sri Lanka with 59.8% and Thailand with 56.8%.¹²

Table 7 shows the number of Greenfield FDI projects in Asia. The share of Asia in the world increased rapidly from 29% in 2002 to 58% in 2004, which shows a vigorous investment in Asia. The number of projects by country accurately reflects the vitality of each economy. In 2004, two countries, China with 1,529 and India with 685, were far ahead of other countries, followed by Singapore with 173, Vietnam with 161, Japan with 152, Malaysia with 125, Hong Kong with 122, Korea with 100, Taiwan with 83, the Philippines with 74 and Indonesia with 59.

The number of multinational corporations located in Asia is shown in Table 8. In terms of affiliates, China numbered 215,000 and exceeded the total of other countries in Asia. In order of number, Korea had 16,181, followed by Malaysia with 15,567, Singapore with 14,052, Hong Kong with 9,072, Japan with 4,710, Thailand with 2,721, and Mongolia with 1,400. The number of parent companies was 7,460 for Korea, 4,149 for Japan, 2,000 for China, 948 for Hong Kong, 606 for Taiwan, and 313 for Indonesia.

We can point out the following characteristics of FDI in Asia: investment into China was overwhelming; investment into India showed a rapid increase due to recent deregulation; there was a risk dispersion element against concentration on China; investment in services increased; there was an interaction effect among countries in Asia.

Table 6 FDI inflows in Asian countries, 1992-2003 (million dollars)

	1992-97 Annual average	1998	1999	2000	2001	2002	2003
<u>East Asia</u>							
China	32,799	45,463	40,319	40,715	46,878	52,743	53,505
Hong Kong	7,781	14,766	24,580	61,939	23,775	9,682	13,561
Macao	-2	-18	9	-1	160	382	350
Mongolia	11	19	30	54	43	78	132
Korea	1,298	5,039	9,436	8,572	3,683	2,941	3,752
North Korea	53	31	-15	5	-4	-15	-5
Taiwan	1,474	222	2,926	4,928	4,109	1,445	453
<u>S.E. Asia</u>							
Indonesia	3,518	-241	-1,866	-4,550	-2,977	145	-597
Philippines	1,343	2,21	1,725	1,345	982	1,792	319
Thailand	2,269	7,491	6,091	3,350	3,813	1,068	1,802
Malaysia	5,816	2,714	3,895	3,788	554	3,203	2,474
Singapore	8,295	7,690	16,067	17,217	15,038	5,730	11,409
Vietnam	1,586	1,700	1,484	1,289	1,300	1,200	1,450
Myanmar	359	684*	304*	208*	192*	191*	128*
Laos	67	45	52	34	24	25	19
Cambodia	128	243	230	149	149	145	87
<u>South Asia</u>							
India	1,676	2,633	2,168	2,319	3,403	3,449	4,269
Sri Lanka	186	150	201	175	82	197	229
Pakistan	577	507	530	305	385	823	1,405
Bangladesh	31	190	180	280	79	52	121
Nepal	11	12	4	-	21	2	30
Maldives	8	12	12	13	12	12	12
Bhutan	-	-	-	-	-	-	-
Afghanistan	-	-	6	-	1	1	1
Total	69,609	92,136	109,115	142,683	102,228	86,326	96,915

(Notes) * means fiscal years

- means figures below million dollars

(Source) compiled from UNCTAD, *World Investment Report 2004*, 2004.

Table 7 Number of Greenfield FDI projects in Asian countries, 2002 - 2004

	2002	2003	2004
<u>East Asia</u>			
Japan	106	132	152
China	581	1,299	1,529
Hong Kong	57	90	122
Macao	2	3	6
Mongolia	2	6	2
Korea	60	109	100
North Korea	–	1	–
Taiwan	41	113	83
<u>Southeast Asia</u>			
Indonesia	31	60	59
Philippines	28	74	74
Thailand	59	161	121
Malaysia	79	183	125
Singapore	107	156	173
Brunei	1	2	2
Vietnam	55	132	161
Myanmar	–	5	1
Laos	–	5	3
Cambodia	1	5	7
Timor-Leste	–	1	–
<u>South Asia</u>			
India	250	457	685
Sri Lanka	8	10	11
Pakistan	13	23	17
Bangladesh	9	17	7
Nepal	1	1	1
Maldives	1	–	–
Afghanistan	2	6	4
<u>Asia and Oceania</u>	1,624	3,346	3,702
Primary	56	122	66
Manufacturing	580	1,246	1,241
Services	988	1,978	2,395
<u>World</u>	5,656	9,303	9,796
Primary	217	473	281
Manufacturing	1,929	3,176	3,108
Services	3,510	5,654	6,407

(Notes) – means figures below million dollars

(Source) Compiled from UNCTAD, *World Investment Report 2005*, 2005.

Table 8 Number of parent corporations and foreign affiliates in Asian countries

	Year	Parent corporations	Foreign affiliates
<u>East Asia</u>			
Japan	2003	4,149	4,710
China	2003	2,000	215,000
Hong Kong	2003	948	9,072
Macao	2003	35	723
Mongolia	1998	–	1,400
Korea	2004	7,460	16,181
Taiwan	2004	606	2,934
<u>Southeast Asia</u>			
Indonesia	2004	313	721
Philippines	2004	–	411
Thailand	1998	–	2,721
Malaysia	1999	–	15,567
Singapore	2002	–	14,052
Brunei	2004	1	34
Vietnam	2004	–	187
Myanmar	2004	–	15
Laos	2004	–	161
Cambodia	2002	–	23
<u>South Asia</u>			
India	2004	1,700	1,181
Sri Lanka	2004	–	1,430
Pakistan	2001	59	582
Bangladesh	2004	2	28
Nepal	2004	1	9
Maldives	2004	1	3
Afghanistan	2004	1	2

(Notes) _ means figures below million dollars

(Source) Compiled from UNCTAD, *World Investment Report 2005*, 2005.

3. Response to Globalization

The expansion of trade and investment in Asian countries must be attributed to their linking their economies into the global economy. In order to facilitate this they implemented trade and investment liberalization and deregulation, concluded regional trade agreements, multilateral investment agreements, established export processing zones, and nurtured industry clusters. When we look at the contribution of trade liberalization, autonomous liberalization contributed 66%, multilateral agreements 25% and regional agreements 10%. The average tariff in East Asia declined from about 23% in 1989-90 to 8% in 2003.¹³

The following are the main reforms implemented by each country in order to improve trade and investment.¹⁴

China encouraged foreign direct investment by setting up special economic zones in 1980 whose number increased in subsequent years. The average economic growth rates in these zones

exceeded 35% during the period of 1980-95 which amounted to three times the national average. In the beginning of the 1980s China introduced private property and the private enterprise system and implemented trade and investment liberalization. Overseas Chinese have contributed to 70% of the FDI over the past 15 years. Hong Kong and Macao accounted for 59% of the accumulated FDI up to 1995 and Taiwan accounted for 9%. China concluded about 100 bilateral investment agreements in the 1980s and 1990s in which the constitution didn't regulate the protection of private property.

India reduced tariffs and relaxed licenses and approvals in the middle of the 1980s. In the early 1990s she implemented a wide-ranging trade liberalization, which included further removal of licenses and approvals, convertibility of rupees, relaxed restraints on foreign ownership, abolition of additional quotas, and further reduction of tariffs. Average tariff rates declined from about 83% to 30% in 1998. In the agricultural sector credit cards for residents were introduced in 1998-99 and 31.6 million cards were issued by April 2003. The electricity business was privatized in 2002. Before that \$200-300 billion were provided as implicit subsidies to the sector annually. The port reforms were started in 1994 and the guideline for private participation was formulated in 1996. India started to attract overseas Indians in the middle of the 1990s who contributed 9% of FDI with \$46 million. Those who had been successful in multinational corporations have been supporting FDI in India.

Vietnam set up a Steering Committee to implement the Enterprise Law in 2000. Before the new Enterprise Law, firms had to spend 3 months for registration, to visit 10 agencies, and to submit 20 different documents. It took 6-12 months to reach establishment and cost \$700-1,400. After the new Enterprise Law, registration days were reduced to 15 days, establishment to two months, and costs to about \$350. The number of business registrations saw a dramatic increase from less than 6,000 in 1999 to 14,000 in 2000 and over 21,000 in both 2001 and 2002.

Singapore set up a Competitiveness Committee. In 1989 customs procedures were simplified from 2-4 days to a few minutes and from 3-35 documents to one document. This reduced costs by 20-35%. The government compensated managers and engineers of foreign firms for 2-3 years in order to facilitate technology and skill transfer from foreign to local firms. In 1990 this program linked 670 local firms, 30 foreign firms and 11 administrative agencies.

In Bangladesh a garment joint venture (Desh garments) with a Korean firm (Daewoo in 1979) achieved remarkable success. The 130 original employees (except for 5 workers) broke away and created their own firms or went to work for other companies. The garment industry is now booming, employing one million workers most of whom are female, and garment exports amounted to \$3.6 billion in 2003. Bangladesh is now increasing mobile phone services (most of

operators are women) in thousands of villages in rural areas.

Korea initiated reforms of corporate governance, lifted the ceilings on foreign ownership, and obligated the appointment of external executives. Korean Americans contributed to the entry of Korean cars, electronics, and white appliances into the US market. Korea started a direct credit scheme in order to support R&D.

Next, we look at the efforts to improve investment climate by country in recent years.¹⁵

2003-2004

Cambodia reduced investment proposal procedures from 45 days to 28 days, increased transparency, predictability, and attractiveness with regard to FDI, published an investment guide to investment opportunities and conditions, and started to put emphasis on vocational training.

China opened the financial sector and tourism to foreign investors. Guizhou province opened 13 industries for foreigners. China approved the first joint venture with an educational institution and removed 789 items as a first step in reducing investment approval requirements. In 2003, China concluded an Economic Partnership Arrangement agreement with Hong Kong which provided firms in Hong Kong with certain privileges, and the similar agreement was made with Macao.

Indonesia concluded double taxation agreements with several countries and approved the entry of foreigners into more industries.

Malaysia continued the liberalization of stock ownership and the liberalization of foreign employment in manufacturing, and allowed 100% foreign ownership in industries except those on the Sensitive List.

Nepal published an investment guide for promoting investment opportunities and improving conditions.

Korea set up a free economic zone Committee and also announced a strategy to attract the MNC's regional headquarters.

Pakistan introduced additional tax incentives for foreign investors and established the Intellectual Property Rights Organization.

Sri Lanka monitored the improvement of the investment climate.

Vietnam set up a Foreign Investment Bureau within the Ministry of Planning and Investment in order to encourage foreign investment. In 2003 she amended the Law on Corporate Income Tax which provides a level playing field for domestic and foreign firms.

2004-2005

China abolished constraints on services (wholesale, retail and franchising) in 2004. In the five-year plan she emphasized the necessity of quality improvements in foreign investment in agriculture, high-technology, advanced manufacturing, modern services, and environmental protection.

India relaxed the ceiling on foreign stock ownership in aviation services, private banks, non-news print publications, and the oil industry.

Indonesia launched infrastructure development and removal of red tape at the beginning of 2005, introduced a one-stop investment service, and examined the possibility of obligating foreign affiliates to sell a portion of their shares to domestic firms and lifted the constraints of the 30-year limit on business licenses. Comparisons of needed days to operate business shows 151 days for Indonesia, 3 days for Thailand, 30 days for Malaysia, 56 days for Vietnam, 50 days for the Philippines, and 41 days for China.

Korea started to construct Investment Korea Plaza in 2004 which included new investment promotion. In 2005, she launched free trade zones and a corporate town project and encouraged FDI in R&D.

The Philippines approved the entry of foreign affiliates into the natural resources sector.

In 2004, Thailand launched a new investment package including the agro-industry, fashion industry, automobile industry, information and communication technology (ICT) industry, and high value-added industry and introduced special privileges to encourage FDI in the four provinces of the North-East.

The above shows that each country is making tremendous efforts to improve the investment climate. China and India made vigorous efforts and their efforts paid off. Other countries can learn from this.

IV The Role of Government in the Global Era

1. Changes in the Role of Government

The role of government changes greatly, reflecting the changes of the times. After the war, government had to take the initiative in postwar reconstruction and to play a great role in economic management. In addition, the economic thought of the time was dominantly Keynesian which promoted reduction of unemployment and business promotion through fiscal policy. This thinking had developed during the economic depression in the 1930s when government's intervention in the market was felt to be justified. Developing countries which

became independent after the war and had just started industrialization, had to have government-led development due to their private sectors being so undeveloped.

Western European countries succeeded in their postwar recovery earlier than other countries thanks to the Marshall Plan aided by the United States. West Germany and Japan which were affected heavily by the war achieved a miraculous economic recovery. These countries pursued the policy of a welfare state which aimed at the realization of better welfare for the nation, and continued to expand government expenditures. Besides this, advanced countries also gave assistance to developing countries due to the cold war which led further to the expansion of government expenditures.

Entering the 1970s, the world economy which had enjoyed favorable economic development through the engine of trade expansion had to be slowed down. This is partly because the US economy which influenced the world business suffered from twin deficits, fiscal deficits and trade deficits. In addition, the two oil shocks in the 1970s slowed down the world economy. It also became clear that the increase of government expenditures led to economic inefficiency.

In the 1980s, new conservative regimes took power one after another in advanced countries. There were the Thatcher government of the UK in 1979, the Reagan administration of the US in 1981, the Kohl government of West Germany in 1982 and the Nakasone government of Japan in 1982. These governments commonly pursued small government, deregulation and privatization. The neoclassical economic thought, which believes in the market mechanism returned because the stagflation in the 1970s had done big damage to Keynesian economics. There was a common recognition that government intervention in the market was a hindrance to economic development, and small government was desirable, and the economy must be left to the market and private sector.

The incident which made the belief in the market mechanism decisive was the end of the cold war from 1989 to 1991. The collapse of the socialist regimes in the Soviet Union and Eastern Europe meant the failure of the planned economy and the victory of the market economy. In addition, China, Vietnam and Laos which maintained socialism politically are in the transition process to the market economy and the world economy is an accelerating market economy. At present the mechanism of the market economy has attracted a lot of attention as globalization has been promoting the integration of the world economy and mega competition among enterprises, industries, and states.

2. Arguments relating to the Role of Government in the Global Economy

We introduce the three arguments of decreasing the role, increasing the role and giving new

role to government.¹⁶

One argument is about the decrease of the government' role, saying that the sovereignty of the state is damaged by globalization and that the state's authority is transferred to international organizations and higher political units, or to lower political units (local governments). The most extreme argument is related to the relationship between the crisis of the nation state and globalization. This ultra-globalization theory argues that capital moves freely in pursuit of high returns in an open economy, which promotes competition among countries. Since every nation tries to provide more favorable investment environments than other countries, FDI inflow increases the locational competitiveness of countries. If a country fails in the provision of a favorable climate, capital and labor flow out of the country, which leads to economic crisis. It is argued that the economy converges into a single liberal market economy such as the US and UK or plural coordinated market economy such as Germany, Switzerland and the Netherlands.

As international openness increases, each economy is proportionately affected by external shock. The economic policy, especially monetary policy of each economy is restricted since the interdependency of financial flows in the world economy is much stronger. It is becoming more difficult for a central bank to control its own interest rates without the control of capital flow. Therefore, economic policy in an open economy faces the following trilemma: 1) fixed exchange rate, 2) national independence in macro-economy, 3) capital mobility. It is difficult to attain the three objectives simultaneously, and two out of three are selected.

The public choice theory starts from the assumption that public choice is not different from individual choice in principle and government seeks the maximization of its own interests like people. This school is critical of welfare economics which explores the best combination of state and market. They argue that the government should intervene in the market only in the case of market failure on the assumption that market functions well. They conclude that minimum government is the best government.

Some are against the above arguments. For example, Krugman argued that the Asian crisis was solved by government intervention to some extent. The global market economy requires state governance like a domestic economy because political coordination is becoming more difficult. Others argued that social structural factors such as modernization and urbanization require an increase of public expenditure. Rapid social changes and extensive population changes cause the demand of public policy. We can point to incidents like September 11, 2001 and natural disasters such as Tsunami and hurricanes and earthquakes.

The realistic response of government is that government should make the market function when it fails. The role of government is as follows: 1) provision of public goods which the

market economy cannot provide, 2) internalization of externality and correction of market failure, 3) to rescue those who remained left behind due to the failure of the market economy. Other functions to be borne by government are protection of property and fiscal management of government, provision of infrastructure, basic research, regulation of public utilities which have competitiveness and monopoly power, internalization of externality in environment, income redistribution, provision of security, and protection against discrimination.

3. New Role of Government

As already discussed, there are many roles which government must play. Here we focus on the role of government in trade and investment.

Taking into account the strengthening interdependence of the world economy, each nation should join the international framework very actively. This consists of the WTO, regional economic integration, regional trade agreements including bilateral ones, and bilateral investment agreements. It is essential that in the age of globalization government should actively involve itself in the global network activities, reap the benefits and attain economic development. Late comers can absorb advanced technology and knowledge within a short period.

On the domestic scene it is important for the government to establish institutions and systems that will boost the economy such as establishment of special economic zones, fostering of industry clusters, deregulation, regulatory reforms, and privatization.

The World Bank enumerates some examples of government policies and behaviors and investment decisions.¹⁷ Regarding costs, a government has strong influence on corruption, taxes, regulatory burdens, red tape, infrastructure and finance costs, and labor market regulation while a government has less influence on market-determined prices of inputs, distance to input and output markets, economies of scale and the scope associated with particular technologies.

Regarding risks, a government has strong influence on policy predictability and credibility, macroeconomic stability, rights to property, contract enforcement, and expropriation while a government has less influence on consumer and competitor responses, external shocks, natural disasters, and supplier reliability.

Regarding barriers to competition, a government has strong influence on regulatory barriers to entry and exit, competitive law and policy, functioning finance markets, and infrastructure while government has less influence on market size and distance to input and output markets, economies of scale and scope in particular activities.

Finally, we must point out the essentiality of human resource development.¹⁸ Human resource development is the key to economic development. The economic success of the NIEs

and early ASEAN comers, China and India has been supported by the spread of education and training. Governments must work for the improvement of training facilities, establishment of research institutes, establishment of science parks, establishment of R&D, call-back of their people (so-called brain out) from overseas, invitation of FDI, and the protection and encouragement of government.

V Conclusion

Globalization has been making progress without doubt. This can be judged from the movements of goods, capital, and people. Economically, globalization has been prevailing in the world through the spread of the market mechanism and trade and investment liberalization. At the same time we can observe the moves towards regionalism and localization, showing the rapid increase of regional economic integration, regional trade agreements and bilateral trade agreements.

Regionally, Asia has been functioning as the growth center of the world and is predicted to sustain its present momentum in the coming years. Behind this background we can point out the rapid economic development of China and India. In addition, NIEs and ASEAN economies have continuously been enjoying high economic growth rates. A look at trade and foreign direct investment by country shows that each country has favorably expanded them. FDI decreased after the September 11 incident in 2001, but had already recovered in 2003 ahead of the world which recovered in 2004.

The role of government is crucial in globalization. Government must adapt the domestic economy to make the market economy function well and enable it to survive mega competition in the global economy by improving the trade and investment climate. The economic development of China and India shows the economic pay-off for their efforts.

Asia is now in a virtuous circle with each nation competing with the other and learning lessons from the success of other countries. Japan also must continue to make reforms and contribute to Asian economic development, and at the same time it is possible for Japan to earn benefits from the business boom in Asia.

Notes

1. Globalization is defined in various ways by many scholars. In broad terms, globalization is the process of world integration that comes about as a result of the movements of people, goods, and capital. Globalization implies not only quantitative but also qualitative expansion

in contrast to the quantitative expansion of internationalization. The analysis of globalization can be discussed in different disciplines such as economics, political science and culture. Here we focus on economic aspects, in particular changes of trade and investment environments and the role of government. Various definitions of globalization are introduced in John Ravenhill ed., *Global Political Economy*.

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