

POST-COLD WAR STATE INDUSTRIALIZATION AS A MEANS OF ECONOMIC GROWTH IN EAST ASIA VERSUS EASTERN EUROPE

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Abstract

The process of industrialization is often associated with an important time period in a nation's economic development as it shifts from small-scale agriculture to prosperity. Historically, the rise of the manufacturing sector in a country has foreshadowed subsequent growth and power, and many countries in Eastern Europe have seen these newfound opportunities to progress economically since the Cold War ended. Asian countries have similarly experienced newfound economic development because of the shift of production to underdeveloped areas along with the rise of outsourcing and offshoring in international manufacturing. While many studies have been conducted assessing the rise of industry as it relates to state and regional growth, comparative assessments of the contributions of the manufacturing sector to the economic rise among underdeveloped Asian nations as compared to Eastern European countries as a region have not been quantified. This study will analyze these two economically evolving areas in an effort to compare the overall economic growth since the fall of the Soviet empire as well as the extent to which that economic growth that can be attributed to the manufacturing sector. Trends in domestic manufacturing labor rates in these areas will also be assessed for this time period.

Keywords: International manufacturing, industrialization, development, culture, global economics

Introduction

The process of industrialization is often an important time period in a nation's economic development as it shifts from small-scale agriculture to prosperity. While many studies have been conducted assessing the rise of industry as it relates to state and regional growth, particularly in Western nations, comparative assessments of the contributions of the manufacturing sector to the economic rise among underdeveloped Asian nations as compared to Eastern European countries as regions have not been quantified. Because of changes in the political environments of many nations since the end of the Cold War, countries in these areas have found themselves in position to develop a healthy industrial sector to drive their economies forward. This study will analyze these two economically evolving regions in an effort to compare the overall economic growth since the fall of the Soviet empire as well as the extent to which that economic growth can be attributed to the manufacturing sector.

Background

Industrial development, an important milestone for a country as it achieves prosperity, tends to be preceded by a healthy agricultural sector. Without successful farming, the prospects for a subsequent manufacturing boom and economic prosperity may remain limited (Sergi et al., 2007; Naude & Szirmai, 2012). The rise of the manufacturing sector and of industrial capabilities in a country generally has foreshadowed subsequent growth and power,

and throughout history, industrial capabilities and exports precipitate economic power and influence (Grotewold, 1971; Mountjoy, 2009).

The term “industrialized” has come to be synonymous for a country with economic development. Coined in the mid-1970s by Western countries which previously advanced in industry, the term “newly industrializing country” (NIC) was used to classify countries that were rapidly expanding their manufacturing output (Gereffi, 1989, p. 507). More recently, industrial development has been a defining feature of what has been dubbed the ‘great takeoff’ (Naude & Szirmai, 2012, p. 2) of formerly underdeveloped nations as they move from underdeveloped to industrialized.

This process of industrialization continues to be an important component of the rise in power of a nation in the modern globalized world. Today, it is more common that an underdeveloped region may achieve this economic progress through industrialization (Chanda & Putterman, 2007). Since the 1950s, the gap between developed and developing countries in terms of industrialization has been narrowing. Manufacturing as a share of GDP has increased sharply in the “vast majority” of underdeveloped countries (Gereffi, 1989, p. 523). The World Economic Forum (2012) indicated that the “globalization of manufacturing has been a key driver” of a rising standard of living for the growing middle class in emerging nations (p. 3) and reported that industrialization has been “immensely important” in a country’s economic development, with “over 70% of the income variations of 128 nations” (p. 3) explained by their manufacturing output alone.

Hudson (2002) observed the relocation of international production locations today due to manufacturing decentralization. Industrialization has spread to underdeveloped regions because of the globalization of production. Multinationals build factories in areas of the world in which the parent company may not be based, resulting in the emergence of a decentralized global manufacturing system in which production operations today can be “dispersed to an unprecedented number of developing as well as industrialized” areas (Gereffi, 1989, p. 509; Sergi et al., 2007).

In addition, movements of capital have become increasingly mobile in today’s decentralized industrial world, and as a result, competition to attract industry from outside sources has risen in salience. Today, it is commonplace for multinational companies to pit various sites against each other in order to receive the best possible bid for land and factory locations (Sun, 2004; Kuchiki & Tsuji, 2011). The World Economic Forum (2012) indicated that “competition between nations to attract foreign direct investment will increase dramatically” (p. 4). As Jensen (2006) noted, “Multinationals search the world for investment opportunities, playing governments against one another ... in an attempt to obtain higher returns” (p. 69). This trade and Foreign Direct Investment (FDI) result in positive spillover effects on the host economy, or a common policy of a “high and rising standard of living” (Richardson, 1990, p. 112). Murrell (1992) also noted the positive spillover effects that ensue when multinationals are allowed to operate and make profits, as the health of the economy has increasingly been linked to this international capital, as FDI is a way of compensating for the lack of domestic investment, which often helps ‘kick-start’ the process of economic development in an underdeveloped area (Economics, 2013).

In recent decades, some regions around the world have followed the traditional path of raising their standards of living through industrial development (Chandra, 2004). Government policy and other strategic initiatives have had a direct impact on this process. Murrell (1992) reported that that economic activities being highly dependent upon politics have been the norm. This economic liberalization through government policies has been adopted concurrently by countries in both East Asia and Eastern Europe, to various extents.

Eastern European and East Asian countries have been rising rapidly in industrialization. While countries in Eastern Europe have seen these newfound opportunities

to progress economically since the Cold War ended, East Asian countries have experienced similar economic development because of the shift of production to underdeveloped areas along with the rise of outsourcing and offshoring in multinational manufacturing. High-producing manufacturing activities in industrial sectors from both of these areas have allowed them to progress in modern day industrialization as a “defining feature” of their economic advancement (Naude & Szirmai, 2012, p. 1).

East Asia

East and Southeast Asia (referred to in this paper as East Asia) has seen infusions of IFDI related to industry during recent decades. In 1989, Gereffi reported that growth in East Asia sparked a rejuvenation of “cross-regional research on development issues” (p. 506). This area has experienced the fastest rate of manufacturing value added (MVA) per capita since 1990 (UN, 2006). Since around that time, East Asia has been at the “receiving end” of outsourcing and deindustrialization from developing areas (Masuyama et al., 2001; Fan & Scott, 2003). Kelly (2002) noted the modern “rapid and recent” manufacturing process of East Asia (p. 395). Economists and development specialists have been intrigued by the East Asian experience as they attempt to understand how these high-growth economies have risen in economic strength (Gereffi, 1989).

This new manufacturing presence in East Asia has prompted sharp economic development and rapid overall economic growth in recent years (Fan & Scott, 2003; Chowdury & Islam, 2012). Heavy involvement by Asian federal governments (Kelly, 2002), which are “engaged actively” in the development of manufacturing (Akkemik, 2009, p. 1), have facilitated this trend. Fan and Scott (2003) noted this government-facilitated industrialization and attributed it to the rise of economic development in East Asia to “dense industrial regions as conduits of productivity” (p. 315). Fox et al. (2009) cited political and economic environments prompting massive changes that have been and are occurring. For example, Singapore has been especially aggressive in its state-created industrial policy and reliance on multinational corporations for the health of the economy (Jomo, 2003).

National governments in the East Asian region have gone to great lengths to establish macroeconomic stability in these economies in an effort to enhance the overall welfare of the nations (Akkemik, 2009; Racine, 2011). While federal governments generally make the important initial decisions to establish liberalization and economic openness and to provide laws enticing manufacturing development (Jomo, 2003; Kuchiki & Tsuji, 2011), local governments in most East Asian countries have had a major hand in facilitating industry and assigning investments to the best possible locales within the countries (Fan & Scott, 2003; Rajagopal, 2007).

Common characteristics of industrial strength in this area of the world include liberalization of markets, communications improvements, and decreased transportation costs (Masuyama et al., 2001; UN, 2006). Akkemik (2009) added that shared features that facilitate manufacturing development in East Asia include infrastructure, incentives, and government reform.

This rise in East Asian industrialization has also been characterized by a feminine workforce, including a controlled hostel-style of accommodations for workers (Kelly, 2002; Suehiro, 2008). Another defining feature of East Asian productivity growth includes the “absence of viable organized labor movements” (Kelly, 2002, p. 395). Kelly (2002) also indicated that these industries were characterized by light assembly, concentrated in garments and electronics, and were driven by FDI. By contrast, in the “more developed North (East) Asian economies, high end consumer electronics and IT product lines” have been the driver for industrial growth (Drysdale, 2012).

Fan and Scott (2003) noted that East Asian industrial growth can be partially attributed to “high levels of mutual proximity” (p. 297) with similar neighboring countries. This has made it easier to “acquire, process and act on information” regarding potential opportunities for development. Proximity to previously industrialized areas has also been a staple of industrial development, since exports can more efficiently be sent to nearby locals with the purchasing power to buy goods (Hiratsuka & Uchida, 2010). For example, the nearby Japanese and Australian markets have helped underdeveloped East Asian countries’ industrial development.

Drysdale (2012) predicts that in the future, competition across East Asia in higher-end production will intensify as the whole region lifts itself close to industrial-country income levels, and also will face the challenge of constantly innovating and becoming more efficient. The dynamics of East Asian productivity will continue to change into the future.

Eastern Europe

This paper will refer to those Central European and Eastern European countries formerly under Communist control as Eastern Europe. The collapse of the Soviet empire and the end of the Cold War initially prompted the newfound economic openness of these countries, and the transformation from centrally-planned to market-based systems of government has been the key component of this sudden rise (Sharma, 1997; Radosevic & Sadowski, 2004). Murrell (1992) identified the insignificance of activities in Eastern European multinational corporations in operations during the Cold-War era. These anti-capitalistic attitudes and policies of the past toward FDI have prompted Eastern European multinationals to lag decades behind their economic competitors in receiving ultimate benefits from its multinational organizations (Murrell, 1992; House of Commons, 2007).

Benkovskis et al. (2012) noted that Eastern European countries engaged in a catch-up process in export prices in the 1990s which was signaled by better product quality from their factories. However, stark differences remain in production capabilities between Western and Eastern European economies because overall competitiveness is still not sufficiently developed in Eastern Europe due to the many years of Communist philosophies (Lorentzen, Laki, & Widmaier, 1999; Sergi et al., 2007).

Since the end of the Cold War and the implementation of economic liberalization policies, some Eastern European countries have been more successful in the transition to modern economies and have industrialized faster (Good, 2004; Hamilton et al., 2005; Geddes et al., 2013). Lemoine (1998) noted that clothing was the engine that drove Eastern European industry when its production first started to take off in the early 1990s. In this model, fashion labels whose parent companies were based in Western Europe outsourced their production to Eastern Europe and then exported the products to Western Europe, as Eastern Europe, like East Asian industries, have had the advantage of being near industrialized areas with high disposable incomes. The “collapse of state socialism” has been cited as the critical phase “in redefining the spaces open to companies in Europe” (Hudson, 2002, p. 263). Eastern European governments that have reformed and restructured quickly and efficiently have been the most successful in industrial output and exports (Hotopp, et al., 2005; Hamilton et al., 2005). By 2001, The World Investment Report (UNCTAD, 2001) reported that Eastern European countries were on the verge of “establishing themselves as prominent players” in multinational industry. Eastern European governments have been continuing to liberalize their economies and provide more conducive environments for development and growth, as the “evolving map offers new opportunities to both companies and region” (Hudson, 2002, p. 263). Nevertheless, Hudson (2002) also noted the “sharper forms of regional uneven development” that exist in Eastern Europe today due to different stages of industrialization.

More recently, local content laws imposed by the EU which mandate that a certain percentage of components of a product be manufactured within Europe. This has prompted more production outsourced to Eastern European because Western European countries want low-cost production but still need assembly to occur in Europe (Jovanovic, 2007; Geddes et. al, 2013). Furthermore, many multinationals outside of Europe have decided to establish operations in Eastern Europe in order to secure long-term partnerships within the EU and to gain a foothold in the European market (Hudson, 2002; Genov, 2013). Today, Eastern European industry is shifting from producing mostly commodities to making more technology-based and labor-intensive products (Hotopp et al., 2005; Hamilton et. al, 2005). As in East Asia, Eastern European countries need to constantly become more efficient and innovate in order to compete globally. Consequently, philosophies of organizational leadership such as strategic management and six sigma that evolved over long stretches of time in Western countries are more likely to be quickly adopted and practiced today in Eastern European industrial organizations (Radosevic, & Sadowski, 2004; Leibo, 2012).

Similarities between the rise of Eastern European and East Asian industrialization, including government reform and decentralization of production operations, have prompted both regions to become key players in modern globalization. The amount of industry that can be attributed to this newfound economic prominence would be a worthwhile inquiry, particularly for those up-and-coming regional economies that hope to be key actors on the global stage in the future.

Methods/Results

United Nations (2013) classifications of regionalization were utilized to group countries in East Asia and Eastern Europe. Six countries were clustered in Eastern Asia, including China, Hong Kong Special Administrative Region, China-Macao Special Administrative Region, Democratic People's Republic of Korea, Mongolia, and the Republic of Korea. Eleven countries categorized in South-Eastern Asia, including Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, and Vietnam. According to this database, only countries or areas with a population of at least 100,000 in 2010 were included. For this study, these Eastern Asian and Southeastern Asian lists were combined into one list for a total of seventeen countries.

Based on the same United Nations (2013) regional classification, 21 countries were listed for Eastern Europe, including Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Montenegro, Poland, Republic of Moldova, Romania, Russian Federation, Serbia, Slovakia, Slovenia, the former Yugoslav Republic of Macedonia, and Ukraine.

Table 1 shows the countries from East Asia and Eastern Europe utilized for economic assessment, utilizing the World Bank's (2013) Gross National Income (GNI) measures. The first year the countries were measured for GNI in our reference is included in the table. A disparity existed in the first years of the World Bank's reported income. This may be because they are more underdeveloped, less transparent in their economic dealings, recently shifting to a market-based system, or a combination of these issues.

Table 1. First Year of Gross National Income Reporting

Country Name	First Year of Measurement
Albania	'86
Belarus	'92
Bosnia and Herzegovina	'96
Brunei Darussalam	'06
Bulgaria	'82
Cambodia	'95
China	'62
Croatia	'92
Czech Republic	'92
Estonia	'89
Greece	'62
Hungary	'70
Indonesia	'69
Korea, South	'62
Laos	'86
Latvia	'89
Lithuania	'92
Macao SAR, China	'84
Malaysia	'62
Mongolia	'83
Montenegro	'02
Philippines	'62
Poland	'92
Romania	'89
Russia	'91
Serbia	'99
Singapore	'62
Slovakia	'86
Slovenia	'92
Thailand	'62
Timor-Leste	'02
Ukraine	'89
Vietnam	'89

Source: World Bank

The GNI of these countries from the most current year, 2009, “Atlas method” (current US dollars) was utilized. The World Bank utilizes the Atlas method to best assess economies of international countries in terms of US dollars. The 2009 GNI list was utilized for this study, as it provides the most recent calculation available for all countries. Only countries with \$10 billion current US dollars or more in GNI were utilized for purposes of this study, which meant that several were excluded from the list. These included eight from East Asia, including Brunei Darussalam (NA), Cambodia (\$9,661,123,094), Hong Kong (NA), China-Macao Special Administrative Region (NA), Laos (\$5,550,280,065), Myanmar (NA), Timor-Leste (NA), and Mongolia (\$4,361,085,320), and three from Eastern Europe- Moldova (\$5,567,601,226), Macedonia (\$8,982,962,269), and Montenegro, (\$4,149,281,952). As such, eight countries were left as the sample size from East Asia and 18 from Eastern Europe.

Table 2. Countries earning >\$10,000,000,000 current US dollars in Gross National Income, 2009

Country Name	2009 Gross National Income (current \$US)
Albania	12,633,829,791
Belarus	53,706,847,501
Bosnia and Herzegovina	17,704,249,761
Bulgaria	45,961,438,266
China	4,856,148,305,642
Croatia	61,027,008,531
Czech Republic	181,547,213,944
Estonia	18,846,451,681
Greece	327,702,840,996
Hungary	130,113,817,089
Indonesia	470,980,375,934
Korea, South	966,600,085,343
Latvia	27,936,465,203
Lithuania	38,095,192,460
Malaysia	201,838,702,030
Philippines	164,612,990,256
Poland	467,545,046,412
Romania	178,899,500,508
Russia	1,324,416,302,508
Serbia	43,939,315,833
Singapore	185,654,642,994
Slovakia	87,401,544,857
Slovenia	48,063,274,682
Thailand	254,743,101,251
Ukraine	128,920,179,469
Vietnam	87,665,684,763

As a means to assess economic growth rates, the year 1991 or the first tabulation reported thereafter was extracted. 1991 was utilized as a basis for the start of growth since it is considered to be the year that Communist regimes from the old USSR had the ability to fully liberalize their economies; this was also the year of analysis from the seminal Murrell (1992) study highlighting the processes of politics associated with positive spillover effects and FDI and the newfound economic openness of Eastern Europe to FDI.

Table 3 presents the increase in GNI from 1991 (or the earliest year the World Bank has measured and published economic information) as compared to 2009 GNI. China's income has gone up the most by far, over twelve times its GNI from 1991.

Table 3. Change in Gross National Income, 2009, from 1991 or Earliest Reported Year

Country Name	Increase in GNI since 1991 or earliest entry
Albania	9.209
Belarus	3.155
Bosnia and Herzegovina	6.156
Bulgaria	3.287
Cambodia	3.036
China	12.043
Croatia	4.332
Czech Republic	6.067
Estonia	3.940
Greece	3.355
Hungary	4.517

Indonesia	4.193
Korea, South	3.199
Latvia	4.136
Lithuania	4.440
Malaysia	4.256
Philippines	3.577
Poland	6.377
Romania	5.389
Russia	2.607
Serbia	2.656
Singapore	4.433
Slovakia	8.336
Slovenia	3.545
Thailand	2.679
Ukraine	1.631
Vietnam	11.581

Tables 4 and 5 present the total GNI increase since 1991 or earliest entry by clustering of countries by region.

Table 4. Change in Gross National Income from 1991 or Earliest Reported Year to 2009, East Asia

East Asia	Increase in GNI since 1991 or earliest entry
China	12.043
Indonesia	4.193
Korea, South	3.199
Malaysia	4.256
Philippines	3.577
Singapore	4.433
Thailand	2.679
Timor-Leste	9.351
Vietnam	11.581
average	5.48

Table 5. Change in Gross National Income from 1991 or Earliest Reported Year to 2009, Eastern Europe

Eastern Europe	Increase in GNI since 1991 or earliest entry
Albania	9.209
Belarus	3.155
Bosnia and Herzegovina	6.156
Bulgaria	3.287
Croatia	4.332
Czech Republic	6.067
Estonia	3.94
Greece	3.355
Hungary	4.517
Latvia	4.136
Lithuania	4.440
Poland	6.377
Romania	5.389
Russia	2.607
Serbia	2.656
Slovakia	8.336
Slovenia	3.545
Ukraine	1.631
average	4.69

Table 6 below shows the total change in GNI for Eastern Europe versus East Asia. East Asian countries have seen higher increases in overall GNIs compared to Eastern

Europe. As seen, Eastern European countries increased by over four-fold, and East Asian countries increased by over five-fold.

Table 6. Change in Gross National Income from 1991 or Earliest Reported Year to 2009, average by region

<i>Eastern Europe</i> - increase in GNP since 1991 or earliest entry	4.69
<i>East Asia</i> - increase in GNP since 1991 or earliest entry	5.48

This increase in total economic progress should be assessed vis-à-vis the economic development attributable to the industrial sector. As such, the World Bank list of “manufacturing value added” was utilized. This calculates the percentage of economic power attributed to the manufacturing sector. The most recent publishing, the manufacturing value added from 2010 (as a percentage of GDP) was used to assess the amount of economic activity dedicated to industry. There was no data for Greece and as such this country was left out (see Table 7).

Table 7. Manufacturing Value Added to Economy

Country Name	manufacturing value added (% of GDP, 2010)
Albania	16
Belarus	30
Bosnia and Herzegovina	14
Bulgaria	16
China	30
Croatia	16
Czech Republic	24
Estonia	17
Greece	n/a
Hungary	23
Indonesia	25
Korea, South	30
Latvia	12
Lithuania	16
Malaysia	25
Philippines	21
Poland	18
Romania	15
Russia	15
Serbia	16
Singapore	22
Slovakia	21
Slovenia	21
Thailand	36
Ukraine	18
Vietnam	20

Source: World Bank

Table 8 shows the average value added from manufacturing as a percentage of GDP by region based on the World Bank (2013) report. East Asian countries had a higher percentage of their economic progress attributed to industry than the countries of Eastern Europe.

Table 8. Manufacturing Value Added to Economy, by region

Eastern Europe- total value added from manufacturing	18.12%
East Asia- total value added from manufacturing	26.13%

In order to assess the economic advancement attributed to industry, this study multiplied the change in economy with the manufacturing value added to find a calculator. This calculator column measures the amount of overall economic gain attributed to the manufacturing sector (see Table 9 below). This column was averaged to find the overall regional economic growth attributed to industry. The data confirm that East Asia has a higher overall score.

Table 9. Economic Growth Attributed to Industry, by country and by region

Eastern Europe	change since 1991 or earliest entry	manufacturing value added (% of GDP, 2010)	calculator	East Asia	change since 1991 or earliest entry	manufacturing value added (% of GDP, 2010)	calculator
Albania	9.2085	16	1.4734	China	12.0430	30	3.6129
Belarus	3.1548	30	0.9464	Indonesia	4.1927	25	1.0482
Bosnia and Herzegovina	6.1560	14	0.8618	Korea, South	3.1985	30	0.9596
Bulgaria	3.2870	16	0.5259	Malaysia	4.2559	25	1.0640
Croatia	4.3323	16	0.6932	Philippines	3.5768	21	0.7511
Czech Republic	6.0670	24	1.4561	Singapore	4.4327	22	0.9752
Estonia	3.9396	17	0.6697	Thailand	2.6789	36	0.9644
Greece	3.3551	N/A	N/A	Vietnam	11.5813	20	2.3163
Hungary	4.5172	23	1.0390				
Latvia	4.1356	12	0.4963				
Lithuania	4.4404	16	0.7105				
Poland	6.3768	18	1.1478				
Romania	5.3894	15	0.8084				
Russia	2.6073	15	0.3911				
Serbia	2.6564	16	0.4250				
Slovakia	8.3361	21	1.7506				
Slovenia	3.5453	21	0.7445				
Ukraine	1.6308	18	0.2935				
Average	4.62	18.12	.849	Average	5.74	26.13	1.46

Table 10. Economic Growth Attributed to Industry, by region

EE- calculator	.849
EA- calculator	1.46

The comparably higher GNI as well as the higher manufacturing value added helped contribute to this higher calculator for East Asia compared to Eastern Europe.

Conculsion

While both regions can attribute their economic growth to industry, East Asia has achieved more economic success as a result of their manufacturing sector, presumably because of low-cost labor.

The rapid economic growth and reliance on the manufacturing sector of several East Asian countries such as China, Indonesia, Malaysia, and Vietnam propelled their region to a higher industrial growth score than Eastern Europe.

Subsequent studies might assess the extent of income variation and standard of living based on manufacturing output. These rapid increases in national economic power might be copied by other regions hoping to achieve similar growth in the future.

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