Chapter 2

New Challenges to the Export Oriented Growth Model

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CHAPTER 2

New Challenges to the Export Oriented Growth Model

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The export-oriented strategy played a crucial role for the successful development of East Asian economies after the World War II. They first exported low-technology manufactured goods, then gradually upgraded and transformed their export goods packages and finally caught up with the developed countries. Export oriented strategy in East Asia has been based on a series of internal and external conditions. Those conditions includes an open international environment, the existence of a certain size of external market, a stable supply of raw materials, as well as good and convenient navigation, and some internal conditions.

Global financial crisis badly changed some of these conditions. For example, the external market was very unstable and was growing very slow; after the financial crisis, international raw material and energy prices experienced sharp volatility, which caused great challenges to the countries and enterprises seeking to implement an export oriented strategy. However, after the financial crisis the changes in international and domestic environments did not change the nature and trends of globalization, only temporarily slowed the pace of this process. East Asian countries can therefore continue their export oriented strategy, but should be prepared for slower progress than in past decades.

Given the unstable and uncertain external markets, East Asia's export strategy and economic development models must find alternative markets. One of these is the intraregional market. The potential intraregional market in East Asia is huge. In 2011, East Asian intraregional trade was 52.62% of its total exports, which was very low compared to the EU (66.75%). If for example, East Asian economies were to catch up with the EU in terms of intraregional trade, then each year there would be more than 1 trillion US dollars new demand from this region alone. Unfortunately, to tap this potential, there is a long way to go for the East Asian economies.

Keywords: East Asia, growth model, export-led growth model, development strategy

JEL classification: F13, F43, 053

1. Introduction

The recent global financial crisis has badly impacted the world economy. Since the crisis broke out in 2008, the US government has stimulated its economy with very loose macroeconomic policy packages. These policies have already been in place for almost four years, yet US economic recovery is still very weak. For example, since 2008, the annual growth rates in the US have been -0.3 % (2008), -3.1% (2009), 2.4% (2010) and 1.8% (2011) respectively, far below the US's long term average rate[1]. At the same time the US unemployment rate has been very high, at 8-10%. Another round of Quantitative easing, QE3, is now under consideration.

As far as the EU's economy is concerned, together with the impact of the global financial crisis, it also has had to deal with the Euro-zone sovereignty debt crisis. The EU economy has suffered greatly because of these two crises, and its economic growth rate has been negative, its unemployment rate has been more 10%, and several countries have been on the verge of debt default. There are as yet no clear and strong signs of recovery and stability in the European economy.

In addition to the negative impacts of the global financial crisis, the Japanese economy has also suffered from the Tohoku earthquake and Fukushima nuclear disaster. More than one year later, the Japanese economy is still to return to its pre-disaster level.

The very slow economic growth of key industrial countries will greatly reduce the demand for exports from developing countries. With this background and under these conditions, can the export oriented strategy of East Asia survive? If not, what are the challenges it will face, and how can the region adjust to the necessary changes? These are the key issues to be analyzed in this paper.

The term "East Asia" in this paper refers only to 12 countries and regions, namely: Japan, the Asian Tigers (Hong Kong, Singapore, Taiwan and South Korea),

[1] IMF, World Economic Outlook, 2012, Oct.

China and the ASEAN4 countries (Malaysia, Thailand, Indonesia and the Philippines), Vietnam and India. In 2011, those 12 economies have more than 46% of the world's population (3,286.52 million), 33.15% of world GDP in terms of purchasing power parity (PPP) (Table 1). It is a very diverse group of economies. Some are high income economies, while the others are middle or even low income.

Table 1: East Asian economies in 2011

	Population	Share of World GDP (PPP)	Share of Current Account Balance to GDP,%	Per capita GDP, Current International Dollar
China	1,348.12	14.32	2.75	5,413.57
Hong Kong SAR	7.15	0.45	4.14	34,048.92
India	1,206.92	5.65	-2.82	1,388.78
Indonesia	241.03	1.43	0.25	3,508.61
Japan	127.82	5.63	2.05	45,920.30
Korea	49.01	1.97	2.38	22,777.93
Malaysia	28.73	0.57	11.48	9,699.70
Philippines	95.86	0.50	2.74	2,223.44
Singapore	5.27	0.40	21.93	49,270.87
Taiwan	23.23	1.11	8.84	20,100.50
Thailand	64.08	0.76	3.43	5,394.36
Vietnam	89.32	0.38	-0.54	1,374.01
Total	3,286.52	33.15		

Source: IMF, World Economic Outlook Database, April of 2012.

In terms of culture, these 12 economies are also very different, and only some of them sharing cultures, languages, and religions.

The first part of this paper will explore the development of the region's export strategy and the East Asian economic development model. The second part will focus on the challenges that this model faces, the third part will give analysis on future readjustments and the fourth part will make a special study of the changes to China's export oriented strategy.

2. Export Strategy and East Asian Economic Development

Looking back at global economic development in the 60 years after World War II, only some countries and regions, such as Japan in East Asia, and the Asian Tigers, rose successfully from backward positions to the ranks of the developed economies. Taking a longer period of observation, in the past one or two centuries, these countries and regions are also among the few groups that successfully leapt into the ranks of the developed economies, in addition to the United States and Europe[2]. Looking ahead, more and more new developing economies will be likely to rise in the East Asian region, where economic development is always fast and very dynamic.

There are many reasons for the successful development of East Asia. These include, for example, the high local savings, government intervention, emphasis on education and others (World Bank 1993, Maddison 2006). Among these, the export-oriented strategy played a crucial role. This was oriented towards external markets, as opposed to the import-substitution development strategy which was aimed at the internal market. The East Asian export-oriented model of development is an international regional development model, beyond that of a country or different regions within a country. The model has a long history and continues to be expanded and deepened. It involves the division and collaboration of labor or functions along the value chains between countries both inside and outside the region. It also involves cooperation and integration among different countries in the region. It is connected with the outside environment and also closely linked to the local environments. Why, then, did the East Asian countries and regions select this export-oriented development strategy?

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[2]According to the World Bank (2012), "Of 101 middle-income economies in1960, only 13 became high income by 2008—Equatorial Guinea; Greece; Hong Kong SAR, China; Ireland; Israel; Japan; Mauritius; Portugal; Puerto Rico; the Republic of Korea; Singapore; Spain; and Taiwan, China."World Bank, 2012, *China 2030*, P12, Box1.

The early developing East Asian countries and regions (Japan first, followed by the Asian Tigers) form a group of resource-poor economies. Learning advanced technology and management expertise from Western countries, importing foreign technology and equipment and exploiting the advantages of backwardness are essential means for backward countries to develop rapidly. However, all these efforts need to be supported by foreign exchange reserves. Another reason for these economies to follow an export oriented strategy is that they are all, or were at the start of their development, small economies. With very limited local markets, they cannot cultivate local industries which are mainly dependent upon internal markets, for example by using an import substitution strategy. The East Asian countries and regions were thus forced to explore the export-oriented development model because of their lack of natural resources, and their limited local markets. They first exported low-technology manufactured goods, then gradually upgraded and transformed their export goods packages and finally caught up with the developed countries.

Let’s take Japan’s development as an example. Japan is a typically resource-poor, densely populated small economy (Kojima, 1971), and stepped onto the development path of modernization after the Meiji Restoration in 1868. Before World War II, Japan had aimed to build a so-called "East Asian Co-Prosperity Sphere” which was centered on Japan and developed its economy by opening up policy, learning and absorbing Western technology (especially military technology), developing military industries, invading China, Korea and other Asian neighbors, plundering the resources and wealth of these countries through military expansion, monopolizing these countries’ markets and implementing colonial rule and brutal aggression. This was a costly development path, and, at the same time, a catastrophic development path for the other Asian countries. Following the ending of the Second World War, the utterly defeated Japan was forced to take the alternative route to economic parity with the West, namely the export oriented development model focused on manufactured goods, not traditional commodities. The key feature of this development model is to export manufactured goods and earn foreign exchange reserves, and then to import the technology, machinery and equipment needed to develop local industries, especially export oriented industries. With this development pattern, the country may export more manufactured goods, and earn more foreign exchange reserves, and again expand and upgrade local industries further. Gradually, over time, the country can catch up successfully.

From the perspective of the political economy of the multilateral trading system (Hoekman and Kostecki 1995), the General Agreement on Tariffs and Trade (GATT) is the game of the major powers, and the small countries are only marginal to it. Small countries, through unilateral or multilateral independent opening-up processes, can gain numerous benefits, such as entering into the unified international market and free-riding[3]. In 1955, Japan joined the GATT and gained significant benefits as a small country at that time; thus, in the market of the developed countries, especially in the product markets of low-tech textiles and clothing, Japan became a major source of supply.

It is very difficult to pave this new development model. The path towards an export-oriented strategy in East Asia was filled with many hardships and restrictions. Among them, opening up external markets was the most important.

Concentrating on the export of labor-intensive textile and clothing products was the earliest choice for the East Asian countries and regions adopting an export-oriented strategy. Internationally, the first restrictions on trade in manufactured goods were introduced in the 1930s (Raffaelli and Jenkins 1995). At that time, the two dispute parties were the U.S. and Japan. Japan's textile exports to the U.S. caused a negative impact on American domestic industry, and under the

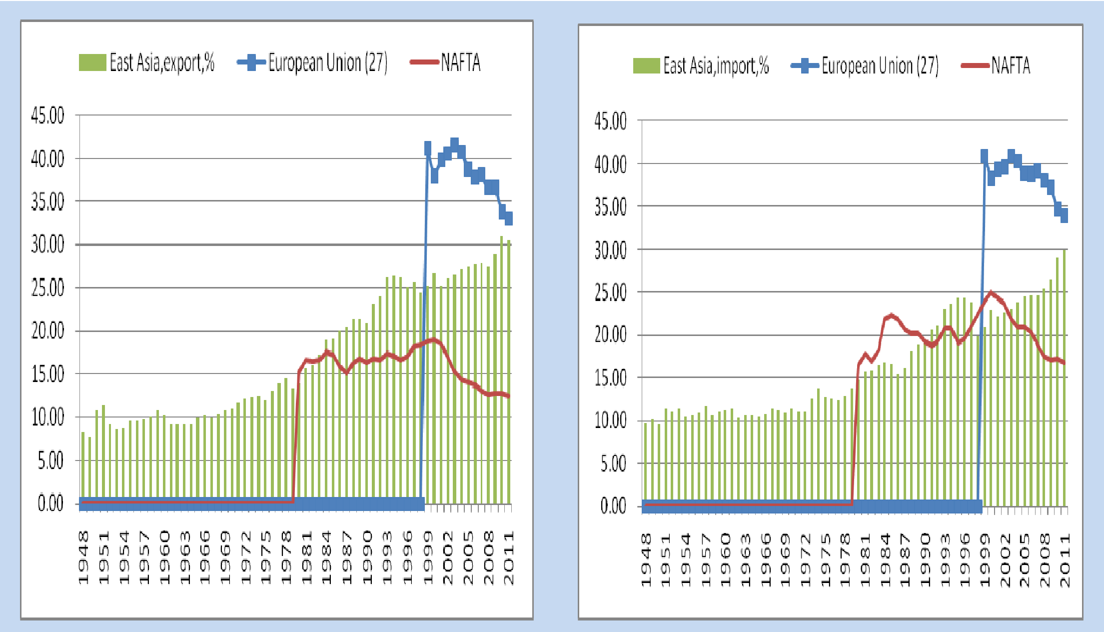
[3]However, if there were no unilateral or multilateral liberalization of the market for the backward small economies, the overall economic development would have been "isolated" and become the "enclave" of global economic development. For example, India, Pakistan, Brazil, Cuba and etc. as original GATT contracting states, have the highest level of world tariff and non-tariff protection. And in multilateral negotiations, these countries are also the most difficult negotiating partners to deal with.

pressure from the U.S., Japan implemented voluntary export restraints (VER). In the 1950s after World War II, under pressure from the U.S. again, the scope of such constraints expanded. The GATT meeting in 1959 officially mainly discussed the "market disruption caused by the importing surge from low-income countries", and the consensus reached at this meeting became the basis for subsequent safe-guard mechanisms covering textile exports. Given this effort, a Short-term Cotton Textiles Agreement (STA) (1 year) was enforced in 1961, and a Long-term Cotton Textile Trade Agreement (LTA) (5 year) was brought in 1962 (Keesing and Wolf 1980). The main targets of this restriction were the export of cotton textiles from Japan, Hong Kong, India and Pakistan. Although the LTA implementation effectively protected the cotton textile industry in the developed countries, the rapid development of the chemical fiber and wool textile industries brought more and more competitive pressure on to the textile industries in the developed countries. In 1974, under pressure from the U.S., the Multi-Fiber Arrangement (MFA), which covered cotton, wool and synthetic fiber, was formally introduced and became the major obstacle to international trade in textiles. Japan, Taiwan, Korea and Hong Kong were affected most heavily during this period. The Agreement was supposed to last for four years but was extended several times. It continued in effect until the establishment of the WTO in 1995, to be replaced by a new textile agreement (ATC), which was itself eventually repealed in 2005. During the period from 1974 to 2005, China was the party most injured by the agreement (Song Hong, 2006). Obviously, however, all the parties targeted by these restrictions were East Asian countries and regions.

It is clear that the export-oriented development model explored by Japan has led to imitation and learning from the other East Asian countries and regions. In the 1960s, the development of these countries and regions triggered a new round of waves of export development. From that time onwards, East Asia has stood out in terms of development, and a unique model of development has begun to take shape.

Another question can be raised here; why did this export-oriented development model continue to expand and deepen over more than half a century in East Asia? This is mainly due to the first-mover advantage and its cumulative effect. Although they faced some limitations and restrictions in the developed countries' markets, these East Asian countries and regions were the first to interact with and to gradually become familiar with the rules and habits of markets in the western developed countries. They then established good economic relations with western countries, especially the local firms. Driven by investment and trade liberalization among the post-war developed countries, and under competitive pressure among themselves, and from the Asian tigers, some low-end industries in developed countries began to shift outwards from the mid-1960s. Thanks to its good reputation as an export oriented region, East Asia has become one of the best destinations for the 'migrant' industries of western countries. Take foreign direct investment (FDI) in East Asia as an example. For many years, East Asia has been the destination attracting most foreign investment in developing regions of the world. Among the developing countries which are the major manufacturing exporters in the world, East Asian countries and regions accounted for the lion's share. This long-term position caused the East Asian countries and regions to grow into the global processing and manufacturing center, during the wave of globalization since the 1980s. At the same time, the early developed countries and regions in East Asia became new hubs of production and investment networks in the region. Thanks to geographic proximity, and the close links and similarity of culture, it is very easy for an economy in the region to learn and share in developments in the 'neighborhood'. In consequence the East Asian export-oriented development model continues to expand, as more and more economies join into this network. A true regional development strategy had gradually formed since the mid 1960s, and was to show itself in the mid 1980s.

Figure1: The Share of East Asia in World Trade, %, 1948-2011



Source: WTO database.

Figure 1 shows the share of the East Asia region in world trade from 1948 to 2011. From this figure, it seems clear that after the mid-1960s, when the Asian Tigers joined Japan in adopting an export oriented strategy, the share of East Asia in world exports began to increase. Since then its share has more than doubled, increasing from 10% in 1966 to 30% in 2011. A similar trend occurred for the imports of East Asia. The share of East Asia (only 12 economies) in world trade is very close to that of the EU (27) and is far greater than that of NAFTA. Based on the trend in the last 10 years, it is expected that East Asia will replace the EU as the top trader in the next few years.

Why did not the other countries do this, or quickly catch up with East Asia? Exporting raw materials and primary products and developing the local economy have always been the main choices for backward countries, especially those which originated as colonies. This model of economic development was also favored by the colony's 'home' state. However, for many reasons[4], these countries and regions

[4]For example, the view of the resource curses theory, Prebish - Singh's point of view of import

have not developed successfully. From the perspective of export-oriented development, the unique characteristics of East Asia, particularly the successfully developed countries and regions in East Asia, are as follows: 1) exporting manufactured goods; 2) supporting the entire country's industrialization through exporting manufactured goods. It calls for a great deal of assurance for long-term persistence in this strategy, involving the consensus of generations and the struggle of the whole country. These conditions are not easily satisfied, especially in backward countries.

Other under-developed countries did not quickly catch up with East Asia because of the 'first-mover advantage' and long-term accumulation of experience, skills, and social capital in the East Asian region. In the meantime the international environment has changed greatly, and much history cannot be repeated since the historic opportunity appeared only once. Even if the same policies and strategies were implemented elsewhere today, the effect would not be the same, since the outside international conditions have changed so much.

3. New Challenges to the Export Oriented Strategy in a New International Economic Environment

Since the global financial crisis, the export oriented strategy has faced new challenges. More and more people have begun to question the ongoing feasibility and effectiveness of an export oriented strategy, and to doubt, whether there is a need to continue to adhere to it, if export orientation is not still the best strategy for a developing country seeking to catch up with the developed world. Even if export orientation remains the best strategy, what challenges and constraints must be faced in its effective implementation?

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substitution strategy, as well as the authoritarianism of the East Asian economic development, and so on.

For the first question, there is ample literature in which the main finding is that there is a significantly positive correlation between trade liberalization and economic growth. Thus an outward, export oriented strategy, is one of the most effective strategies which can promote faster economic growth. The experience of East Asia is a vivid example (Krueger, *et al.* 1985; World Bank, 1993). Here we will not go further on this point except to point that, since the 1980s, along with the advance of globalization, an export oriented strategy has become a common choice for economic development in many countries, especially developing countries and regions.

So, given that the export oriented strategy is a very good one, what are the challenges it will face in future? Export oriented strategy in East Asia has been based on a series of internal and external conditions. If these conditions continue to exist, then this strategy can continue to be implemented. If not, change is needed.

First, the implementation of an export oriented strategy needs an open international environment. Since the financial crisis broke out, questioning and criticism of economic globalization have been a common theme in the western developed countries. In 2009 doubts about the impact of globalization on US employment appeared in US political and academic circles (Spence 2011), as well as critical reflections on the capitalist system. In 2010, the former French President Nicolas Sarkozy publicly questioned the impact of globalization (Sarkozy 2010). However, the process of globalization will not be terminated, let alone be reversed. The market mechanism is the most effective way of allocating resources and the most efficient way to coordinate the behaviors of market players. Globalization is actually the expansion of the market mechanism all over the world. In fact, in the last few years, the global market mechanism has still worked, and worked very well. It may even have been strengthened. For example, the multilateral trading system still played a very important role during the financial crisis. Although the multilateral negotiation is stalled, the rules of the WTO are still working. Because it continued to work trade protectionism neither become a fashion, nor hindered the normal development of the global economy; exchange rate wars, similar to the currency wars of the Great Depression in the 1930s, did not occur. Further, the key developed countries, especially the United States as the representative of the Pacific Rim countries, are also actively pushing the highest level of regional trade arrangements in the history of mankind (The Trans-Pacific Economic Partnership, (TPP)). This is strong evidence that globalization was still progressing, and was actively being pushed forward during financial crisis. Meanwhile, the U.S. is also strengthening the so-called institutional architecture of the global marketing system. And in order to maintain the healthy operation of the global market mechanism, a new office was set up in the USA to monitor other countries' obedience of the international rules,

Second, the implementation of an export oriented strategy in East Asia requires the existence of a certain size of external market. Otherwise, nobody could accomplish anything, without the necessary means. As far as the external market is concerned, there are two changes worth noting: 1) After financial crisis, economic recovery in the developed countries has been weak, and may even have fallen into a long-term path of slow growth. Demand from these countries will not be very strong in the near future, as compared with past decades. The expansion space of export oriented strategies in East Asia is therefore being, and will be, squeezed. East Asian countries consequently face the important task of looking for new sources of growth. 2) To a certain extent, the adjustment of the financial crisis and global imbalances is a new constraint for the implementation of an export oriented strategy in East Asia. After the financial crisis, a new view took shape, namely that the financial crisis was caused (at least partly) by the global economic imbalances. Therefore, the imbalances must be readjusted. In 2009, the Pittsburgh summit of the G20 in the United States reached a consensus on a basic framework for adjustment of global imbalances, namely, "A framework for strong, sustainable, and balanced growth", and required an adjustment of external balances by both deficit and surplus countries. In order to ensure global economic rebalance, the G20 also established “a mutual appraisal mechanism” to evaluate policies and progress in each country. In the following G20 Toronto, Seoul and Cannes summits, measuring and constraining the global imbalances became one of the focus discussions. The IMF has accepted the commission of the G20 to embark on a technology assessment for global economic rebalance, and to establish a “reference guide” to quantify and assess progress in this area (IMF 2010a, 2010b).

Third, the implementation of an export oriented strategy also needs a stable supply of raw materials, as well as good and convenient navigation. The development of modern international trade relies on maritime transportation. For a country choosing to implement an export oriented strategy, assessment of port availability and quality, and shipping cost is essential. Since 2003 and 2004, especially before and after the crisis, international raw material and energy prices experienced sharp volatility, which caused great challenges to the countries and enterprises seeking to implement an export oriented strategy. A survey found that, during the crisis, the bankruptcy and closure of enterprises were mainly due to sudden disruptions in cash flows caused by fluctuations in raw material prices on international markets (Wang and Song Hong, 2009). In addition, rising oil prices also led to a substantial surge in shipping costs, making some exports unprofitable.

Fourth, on the basis of the existing international economic environment, the implementation of an export oriented strategy also requires certain internal conditions. Among them the most important are adequate infrastructure, competitive production and operational costs, strong local production support capacity, favorable labor and regulatory conditions, and economic ties to the regional, even global production networks. These conditions may also change. For example, with economic development local labor and other factor costs will rise. This will change the basis of local comparative advantage and force firms to upgrade their product and process technology, even relocate some of their production capacity.

During the financial crisis, China's labor costs rose by 10-20% annually. Affected by this, some Asian countries have followed suit (rather than take this opportunity to attract more foreign investment and crowd out China's export market). Therefore, the cost advantage in East Asian exports generally has been eroded. It is against this background that some western countries are actively promoting a new round of the reindustrialization process (the industrialization of high-end manufacturing), urging their multinational enterprises to repatriate their overseas manufacturing activity.

In all, after the financial crisis the changes in international and domestic environments did not change the nature and trends of globalization, but only temporarily slowed the pace of this process. East Asian countries can therefore continue their export oriented strategy but should be prepared for slower progress than in past decades.

4. Reforming the Export Oriented Strategy

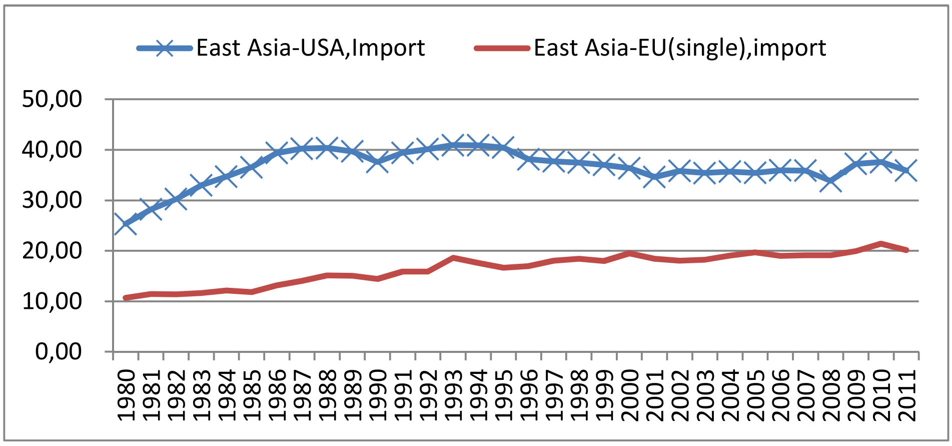
The implementation of East Asia's export-oriented strategy had spillover effects, with one group of countries first participating, followed, some years later, by another group of countries, and soon, one wave after another. Initially, the process started in Japan in the 1950s, followed by Asia's Four Little Dragons in the 1960s, next followed by China and the ASEAN-4 countries in the 1970s. Subsequently Vietnam, India and other ASEAN countries joined the process in the second half of the 1980s. With this proliferation, a growing number of East Asian countries and regions began to enter into the international market. This brought changes in two aspects: on the one hand, East Asian countries and regions became increasingly in great need of external markets and thus faced the risk of volatility in the external market and the restrictions imposed by trade protectionism. On the other hand, with the economic linkages between the East Asian countries and regions deepening, more and more institutional arrangements were needed to support and guarantee such development.

Therefore, in addition to the challenges arising from the changes of internal and external conditions, there are two major problems in the existing export oriented strategy in East Asia.

First is the heavy reliance on the outside market, especially in the developed countries.

1) In the market in the developed countries, the share of East Asian countries and regions is already very high. For example, in the U.S. market the share of imports from East Asia is steady at 35% of total imports of the U.S., which is far higher than the proportion of NAFTA members (25%). And in the EU market (as a whole, not including intra-trade) the share of imports from East Asia has reached about 20% (Figure 2).

Figure 2: Share of Imports from East Asia in USA and EU, 1980-2011.



Source: IMF, DOTS, May of 2012 database CD.

2) Additionally, the expansion of trade for the East Asian countries and regions in developed countries' markets seems to be facing a new ceiling. The share of East Asia's imports in the EU and the U.S. markets has been basically stable for at least the past 10 years. So, where is the new export market for East Asian countries and regions?

3) One of the new export markets for East Asia is that of developing countries. However, the risk in these new export markets is very high. For example, in the last decade, antidumping cases initiated by developing members of WTO have been more common than those initiated by developed members.

The second major problem is that, East Asian intra-regional economic integration is deepening, but the guarantee of the institutional framework is weak.

1) With the expansion of an export-oriented production base within East Asia, the internal economic integration in East Asia is deepening, especially with Japan and China. But it lacks unified institutional architecture to promote the change. In recent years, moreover, the East Asian economies signed many competitive FTAs, which could break up the integrated East Asian production system and markets. For example, peripheral countries or regions economically, such as the members of ASEAN have become the axis of the regional integration process in East Asia. However, the real core countries retreat behind. And the integration process between the core countries in this region has been very difficult and very slow. Another example is the TTP arrangement. That would be a divergent force for East Asian economic integration, or at least a new alternative track[5], besides the existing one with the ASEAN plus one framework.

2) Along with the rise of China come new challenges. For instance, the U.S has aggressively returned to East Asia with a so-called new strategy (Clinton 2011) and closely built its relationships with its allies, apparently seeking to balance the influence of China in this region. This new US strategy has brought new uncertainty for the process of regional integration in East Asia. For example, the TPP arrangement with U.S. leadership would force many East Asian economies to make a choice, either to maintain the existing ASEAN plus one track or to participate in the TPP track. Obviously, the TPP arrangement is aiming

[5] According to Bernard K. Gordon (2012), "The TPP would go well beyond categories traditionally included in trade agreements. To begin with, over the next decade, it would gradually remove all tariffs on trade between member states. Following the model of the FTA between the United States and South Korea, it would affect almost all forms of economic interaction among its members, covering policies on investment and government procurement, labor and environmental standards, agriculture, intellectual property, and such new sectors as state-owned and small and medium-sized enterprises, businesses with anywhere between 50 and 500 employees. The United States and its partners hope that the TPP becomes the linchpin of free trade in the Asia-Pacific region."

to split and interfere with the economic integration process in East Asia.

3) Along with the return of the US to East Asia have come the new uncertainties in the South China Sea. With the clear support of the US, some of the ASEAN countries, even Japan in the Yellow Sea, have challenged China in terms of territorial disputes. These disputes in detail and the deterioration of the situation in general in the South China Sea have badly damaged the trust among East Asian economies and have threatened the cooperation between East Asian countries.

Given the dramatic changes in the internal and external conditions triggered by the financial crisis, and the problems of the export-oriented strategy, how should East Asian Economies adjust and change their export oriented strategy and development model?

First, the traditional concepts and misunderstanding of the export-oriented strategy should be rectified all over the world, for example the view that the export-oriented strategy has created the global imbalances. Additionally, in the international background the traditional statistical methods used to calculate a country's trade surplus and deficit are still in use, and the belief that a trade surplus is good and a deficit is bad is stubbornly maintained, and so on. In the international context, the way that the trade data is collected, and the classifications used, should be changed, and the international production networks should be considered more objectively. A case in point is the “made in the world” initiative, which was promoted by the WTO Director General Pascal Larmy who was determined to explore new ways to calculate a country’s trade surplus and deficit based on value-added. Those efforts are expected to change people’s views about the export-oriented strategy. In fact, from the historical and international points of view, the export oriented strategy and the development model in East Asia are very advanced and very effective in terms of economic performance, so it ought to have a very good reputation.

Second, the cooperation within East Asia should be deepened. With the export capacity of the East Asian region enhancing continuously, the number of participating countries increasing, the East Asian export production network has extended to more remote countries; that is, from the core area of East Asia (Japan, the Asian Tigers, China) to non-core regions (ASEAN, India and Vietnam). The development of the export oriented strategy is now facing a dilemma. On the one hand, the scale and quality of export goods are increasing and upgrading, whilst on the other, more and more export capacities are being transferred to countries with even worse conditions such as poor infrastructures and low labor skills. More in-depth economic integration and the building of more diverse supporting systems are needed in the East Asian region to facilitate those changes. Here, the core countries in East Asia should take their historical responsibility. Regional integration negotiations among China, Japan and South Korea are now actively being promoted, in the hope that new progress can be made.

Furthermore, the markets in East Asia need to be more open. The development of East Asia's export-oriented model is closely related to the status of small or developing countries in the East Asian region. These countries and regions have made full use of their advantage. During the GATT multilateral negotiations, the East Asia region liberalized slowly, compared with other regions, say the EU and NAFTA. Reform of the export strategy therefore needs to promote greater openness in the region's various countries and regions. Obviously, the construction of regional trade agreements is a good means of doing this.

Finally, the East Asian export strategy and the development model are based on as well as promoted by the local economic development conditions of its members. Japan and South Korea have already successfully joined the OECD club. However, for many new users of this model, the coordination of the local economy with the export sector is very poor. In some countries, an export-oriented industrial base only has developed, without any effort to build a diverse national industrial system. The export oriented strategy has sadly only resulted in an uneven distribution of wealth, with a dual economy, as well as deformity of the economic structure and development conditions. To maintain the momentum of long-term development in East Asia, the local economy of its member countries must be healthy and sustainable. Here, the experience of Japan and the Asian Tigers is worth studying by the latecomers.

In short, as the external demand is weak in the developed countries, which may possibly lapse into a long term depressed state, and the needs of developing countries are unstable and uncertain, East Asia's export strategy and economic development models must find alternative markets. One of these is the intraregional market. The potential intraregional market in East Asia is huge. In 2011, East Asian intraregional trade was 52.62% of its total exports, which was very low compared to the EU (66.75%). If for example, East Asian economies were to catch up with the EU in terms of intraregional trade, then each year there would be more than 1 trillion US dollars new demand from this region alone. The traditional East Asian export strategy should therefore be adjusted to a more integrated, more open, more East Asia-oriented trade and development strategy. It would exploit the potential demand within East Asia and take advantage of the increasing middle class population of this region to make up for the lack of external demand needed to achieve sustainable economic development. At the same time, it can make full use of the overall regional competitive advantage to consolidate and improve its international competitive position.

5. Adjustment of China's Export Oriented Strategy - Moving to Inland China, Moving Up or Moving Out?

Following its reform and opening-up to the outside world, China built cooperative relationships first with Hong Kong in the 1980s, then with Taiwan, South Korea, Singapore and Japan in the 1990s, and once again integrated further with

Japan, the four Asian Tigers, and even with the U.S. and EU in the 2000s. In this way, China gradually joined into the East Asian or even the global production network and became one of the regional or global processing and manufacturing bases.

Probably from 1986, China began to gradually integrate into the East Asian export-oriented development model. The expansion of export markets (cumulated as the annual growth of export market) and import sources of China (cumulated as the annual growth of import source) clearly demonstrated the three different stages of development:

1) Before 1986, foreign trade was mainly concentrated in the Asian area. More than 80 % of export growth and 60 % of import growth came from the neighboring Asian economies.

2) During the period from 1986 to 1993, China established for the first time, a trade pattern putting the developed markets such as the U.S., Europe and Japan as the main exporting targets. These three markets accounted for more than 50% of export trade expansion, reaching 53.1%; during the period from 1980 to 1986, in contrast, these three markets only absorbed 35% of China's export expansion. In the short period of seven years, their contribution to China's export expansion increased more than 50%. During the same period, imports from Taiwan, Korea and Singapore increased substantially from 0.2% to 33.8%. From 1994 to 2002, a similar trade pattern was maintained to that from 1986 to 1993.

3) From 2003 to 2009, a new trade pattern began to emerge. On the export side, the three developed markets' contribution to China's export expansion reduced to 43.7%. The Japanese market had contributed most to this decline, falling from 14 % in 1994-2002 to 5.6 %, more than 50% down. At the same time, the contribution from emerging market economies such as India, Brazil and Vietnam to China's export expansion showed a significant increase, up to more than 50%. In this period, China's import demand was focused on resource products. Resource imports from related countries took higher and higher shares of China's import expansion.

Table 2: The Role of China in East Asia, 2011

East Asia Economies	Top 4 Export Markets	Top 4 Import Sources
Japan	China, USA, Eurozone, Korea	China. USA, Eurozone, Australia
Hong Kong	China, USA, Eurozone, Japan	China, Japan, Singapore, Eurozone
Korea,	China, USA, Eurozone, Japan	China, Japan, USA, Eurozone
Singapore	Malaysia, Hong Kong, Indonesia, China	USA, Malaysia, China, Eurozone
Taiwan	China, USA, Hong Kong, Eurozone	Japan, China, USA, Eurozone
China	USA, Hong Kong, Eurozone, Japan	Japan, Eurozone, Korea, Taiwan
Indonesia	Japan, China, Singapore, USA	China, Singapore, Japan, Korea
Malaysia	China, Singapore, Japan, USA	Singapore, China, Japan, USA
Philippines	China, Japan, USA, Singapore	China, Japan, USA, Korea
Thailand	China, USA, Japan, Hong Kong	Japan, China, UAE, Eurozone
India	Eurozone, UAE, USA, China	China, Eurozone, UAE, USA
Viet Nam	USA, Eurozone, Japan, China	China, Korea, Singapore, Japan

Source: IMF, DOT CD, May of 2012.

China is now the most significant representative of the East Asian export-oriented development model: on the one hand, as the final part of the model, China is now the processing and assembling base for manufactured goods; on the other hand, China's accession also deepened trade integration within the East Asia region, and, more importantly, reduced the region's dependence on the developed countries such as the U.S. and the EU. In 2011, for example, China became the top export market for 7 of the other 11 economies in East Asia, and also the top import source for 7 of the other 11 East Asian economies (Table 2).

In recent years, substantial changes put China's export enterprises and industries under a huge pressure of adjustment. The changes included the rising price of imported raw materials and energy, the particular shock of the financial crisis, rapidly rising wage levels, the increasing appreciation of the RMB exchange rate, the shortage of labor, increasing external trade restrictions and so on. Did these changes then bring China's export-oriented strategy to a turning point?

The large-scale labor intensive industry transformation has still not happened in China, as it did in the Asian Tigers and Japan in the mid 1980s, but sporadic and small-scale restructuring of such industries has already begun to emerge, especially in the coastal provinces. Obviously, such a transformation in China will be a process, taking several years to complete.

1) Moving to inland China. Restructuring of labor intensive industries in China took such a form as moving from coastal regions to the middle and western parts of the country. An initial transfer into the inland provinces of China is a wise choice. On the one hand, it avoids the inconvenience experienced in dealing with foreign customs and people if moving industries out to other countries. On the other hand, it is much easier for firms to integrate with each other in trade and investment within a country.

   As a result of this transformation in recent years, the trade growth in China's inland provinces was much higher than the growth in its coastal areas. For example, according to the trade data released by the General Administration of Customs, during the first five months of 2012, China's exports increased by 8.7 %, to $ 774.4 billion. Of this total, Guangdong exported $ 218.52 billion, with an increase of 6.9%. The exports from Jiangsu, Zhejiang and Shanghai were $122.99 billion, $85.89 billion and $82.49 billion, respectively, with an increase of 2%, 5.3% and 3.1%. However, in the central and western provinces of China, export growth rates were much faster. For example, Sichuan, Jiangxi and Guangxi grew their exports respectively by 78.7%, 57.2% and 22.7%, with Chongqing up to 2.3 times and Henan up to 1.1 times. This performance is just the result of business migration to the central and western provinces in recent years.

2) Moving up or upgrading the trade structure. Besides moving inland, moving up or upgrading was also an option for many companies. This is mainly reflected in the following ways: (1) mechanization, in replace of labor and increasing production efficiency. This has already happened in many Chinese factories; (2) product quality improvement and brand building; (3) innovation, accumulating more patents and other intellectual property rights; and (4) upgrading from low skilled products and industry to high skilled ones, or from low functions to high value-added functions along the same value chain.

3) Moving out. The greatest uncertainty in the transformation lies in the destinations of outward industry transfers. According to the classification of export products in China, the typical labor-intensive products such as textiles, clothing, shoes, furniture and travel goods account for more than 20%[6] of total exports; furthermore, the proportion of processing trade is probably 50%. Processing trade refers to processing and manufacturing activities using cheap production factors, especially labor, and importing raw materials, with output almost all exported to foreign markets. Processing trade can be seen as the representative of labor-intensive products. If these products will one day transfer outwards, then which country or region can absorb such a large-scale production and processing capacity?

To some extent, this challenge in the trade transformation in China is also the biggest challenge faced by the East Asian export-oriented strategy. The key to export strategy reform lies in whether the East Asian region can co-ordinate among its member economies, and intraregional integration is a feasible option.

In short, large-scale trade transformation in China is yet to take place. A small transformation has however already begun to emerge, such as the mechanization efforts of many factories, and so on. The Chinese trade strategy adjustment is only part of the adjustment of export strategy and the development model in East Asia. This adjustment will include not only inward transferring and internal upgrading, but also outward transferring and intra-regional coordination and cooperation. During this process, the direction of labor-intensive manufacturing industry's transformation in the next round will be a test for the East Asian countries and regions to manage and overcome the challenges of the regional development model.

[6] In 2011, China's export trade was $ 1898.6 billion, and imports amounted to $ 1743.459 billion.

6. Conclusions and Policy Recommendations

Based on the previous analysis, the following conclusions can be drawn.

First, the export oriented development strategy in East Asia has been the most successful and most advanced model of development after World War II, and even over a longer period. It has succeeded against the background of an open global economy, and in particular, of economic globalization.

Second, after the recent financial crisis, adverse reflections on globalization and the doubts about the market mechanism appeared in developed countries. However, as the most efficient mechanism in the history of mankind, the market economy will continue to exist, and the process of globalization will continue - perhaps being expanded or further developed.

Third, after the financial crisis, the implementation conditions of the export oriented strategy in East Asia have changed greatly. Demand from the U.S. and Europe has declined, because of the prolonged slump in these countries' economic growth. The US and Europe have also forced adjustments and changes in other countries, such as the global economic rebalance. In addition, the global climate change negotiations and the sharp volatility of raw material and energy prices are also affecting the normal operation of the strategy. However, these are only changes in the external environment, and will neither reverse the entire trend of the globalization of market economy development, nor rule out the choice of an export oriented development strategy in East Asia.

Fourth, China's trade strategy restructuring and upgrading is currently the most important part of the export oriented strategy adjustment in East Asia, and will remain so in the immediate future. China has adopted the strategy of relocating industries first to internal regions, then to foreign countries, and has obtained preliminary results. At the same time, many Chinese companies are building their own brands and marketing networks and are actively engaging in technical innovation, promoting the upgrading of trade structure.

Given this analysis and consequent conclusions, the following policy recommendations are proposed.

First, East Asia should unequivocally support globalization and oppose trade protectionism; actively support the reform of the global trade statistics system based on added value; promote the economic recovery process in developed countries.

Second, East Asia should actively promote the regional integration process. East Asia is both a global dynamic production and processing base and the world's largest potential market. The regional integration process can tap enormous internal market potential, thus making up for the lack of external demand, also can improve the export competitiveness of East Asia and stabilize the foundation of export strategy.

Third, East Asia should promote internal economic reforms and provide more support to the less developed East Asian countries so as to build economic growth on a broad and solid foundation.

Past accomplishment cannot guarantee future success. In the next 10 years or even further into the future, if East Asia cannot conduct the reform and restructuring successfully, and also make real progress in regional integration, then the foundation of competitiveness inherited from the past may be lost, and the dream of the Asian Century will not be realized.

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Appendix

Table A1: East Asian (EA) Intraregional and External Trade, 1980-2011

	Intraregional Trade		External Trade						Export, million	Import, million
	EA, Export	EA, Import	EA-USA, Export	EA-EU, Export	EA-USA, Import	EA-EU, Import	EA-Non USA and EU, Export	EA-Non USA and EU, Import	Export of EA	Import from EA
1980	34.56	32.88	22.16	16.60	17.11	10.44	26.68	39.57	280958.42	303066.04
1981	33.82	33.93	23.11	14.53	16.89	10.51	28.54	38.67	315309.49	322571.07
1982	34.45	34.02	23.65	14.07	17.63	10.49	27.83	37.86	301243.07	307366.89
1983	34.01	35.48	27.27	14.15	17.79	11.36	24.56	35.37	317643.56	308588.44
1984	33.82	37.54	31.36	12.88	17.87	11.46	21.95	33.13	366978.86	332238.74
1985	34.20	38.13	32.72	12.85	17.02	12.24	20.23	32.61	373857.20	335537.15
1986	31.56	40.24	34.23	15.63	17.76	14.88	18.58	27.13	427673.63	341011.85
1987	34.00	42.60	32.31	17.07	16.90	14.87	16.61	25.63	513736.08	416197.42
1988	36.95	42.64	29.50	17.73	18.17	14.73	15.82	24.46	614898.11	533050.52
1989	38.38	42.52	28.98	17.22	18.40	14.69	15.42	24.39	665998.07	601271.11
1990	39.94	42.22	26.13	18.33	17.58	15.44	15.60	24.76	727797.05	686251.11
1991	42.25	46.32	24.12	18.40	17.30	14.26	15.23	22.12	815622.85	747679.76
1992	43.13	47.99	23.90	17.61	16.69	14.13	15.36	21.19	907641.80	814342.15
1993	44.53	48.73	24.75	16.17	16.41	14.19	14.54	20.67	992450.76	896306.25
1994	46.92	49.58	24.38	15.20	16.24	14.41	13.50	19.77	1147553.77	1043703.71
1995	48.68	49.07	22.33	15.40	16.22	14.50	13.58	20.21	1361674.84	1294164.52
1996	49.68	48.40	21.81	15.13	16.39	14.35	13.38	20.85	1369896.50	1349050.048
1997	48.50	49.18	22.09	15.46	16.21	13.87	13.95	20.74	1446521.54	1358091.077
1998	43.25	50.90	24.45	17.83	16.73	13.69	14.47	18.68	1352009.40	1119353.946
1999	44.92	52.31	24.83	17.40	15.75	12.95	12.85	18.98	1445670.95	1228726.098
2000	47.72	52.67	23.96	16.23	14.17	11.66	12.09	21.50	1717078.28	1532016.309
2001	48.09	50.98	23.18	16.21	13.70	12.63	12.51	22.69	1559726.44	1425029.561
2002	49.74	52.71	22.51	15.36	12.54	12.21	12.39	22.54	1688614.30	1512258.563
2003	51.59	53.48	20.16	15.85	11.29	12.00	12.41	23.24	2003865.36	1799687.986
2004	52.26	53.28	19.00	15.97	10.35	11.60	12.76	24.77	2491051.62	2274680.53
2005	51.93	52.08	18.54	15.85	9.59	10.76	13.68	27.57	2869721.00	2633101.6
2006	51.21	51.02	18.05	15.92	9.26	10.41	14.82	29.31	3356123.60	3051420
2007	50.57	50.22	16.33	16.16	9.01	10.68	16.94	30.09	3895663.40	3501934.1
2008	50.02	47.89	14.67	15.93	8.34	10.18	19.38	33.59	4398944.20	4166825.2
2009	51.48	48.97	14.29	15.04	8.54	11.13	19.19	31.36	3639283.90	3376074.4
2010	52.46	49.26	13.85	14.42	8.10	10.15	19.28	32.49	4738268.80	4483413.2
2011	52.62	47.74	13.21	13.83	7.40	10.14	20.35	34.71	5568770.00	5523052.6

Source: IMF, DOT database, May of 2012.