

for this symposium by the staff of the Economic Office of the Asian Development Bank.

The paper is in five parts. Part I examines the basic differences of the economies of Western Europe and developing Asia that motivate trade and investments within regions. The next two parts examine the recent trend of trade and resource flows within the regions. Part IV considers the role of various existing economic co-operation agreements between the governments of European and Asian countries, and the final section summarizes the main findings and conclusions. Throughout the study, "Europe" comprises the European OECD countries, while "developing Asia" comprises the developing member countries of the Asian Development Bank (ADB), i.e., including the "dominated" economies of Indochina and Afghanistan, and the "Asian NICs" (Hong Kong, South Korea, Singapore, and Taiwan), but excluding the People's Republic of China.

While it is understandable that an official organization such as the ADB must not be seen to exclude any of its member countries in an exercise of this kind, the wide coverage, particularly on the Asian side, does rather detract from the value of any generalizations made. While ostensibly speaking for all, the study frequently has to delimit the applicability of its findings to such sub-regions as "the newly industrializing countries of East Asia", etc. The reader frequently gains the impression that the authors would have been happier to restrict their analysis to a rather more homogeneous set of countries.

The analysis of the basic economic indicators of European and Asian countries clearly shows the main differences in resource endowment and consequently in the basic patterns of comparative advantage of the two areas. The analysis of trade confirms the picture that emerges, but also shows the shift occurring away from primary commodity exports from Asian countries to Europe to a greater exchange of manufactured products. Industrial development in some Asian countries is gradually imposing a new pattern of trade on that

dictated by resource endowment alone. The study points out that, by turning to increasingly market-oriented outward-looking policies and adopting generally prudent monetary and fiscal policies, a growing number of Asian developing countries are succeeding in establishing a solid and broad-based foundation for economic growth. Europe's participation could be greater in this development process, given the significant opportunities to apply European technology to produce resource-based and labour-intensive manufactures. The industrialization of Asia is also providing expanding markets for Europe's exports of technologically advanced manufactures and for engineering, management and financial services.

The views expressed in the paper are not new. They rather summarize the current thinking of economists throughout Asia and Europe, and beyond. While it is understandable that the Asian Development Bank, in its preface, stresses that the views expressed in the paper are those of the authors and not necessarily those of the Asian Development Bank, it would surely have been appropriate for those authors to be named in the work. As it is, the paper remains an anonymous piece.

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Korea's Competitive Edge: Managing the Entry into World Markets. By Yung Whee Rhee, Bruce Ross-Larson, Garry Pursell. A World Bank Research Publication. Baltimore and London: Johns Hopkins University Press, 1984. Pp. 165.

This book is based on a survey conducted in 1976 of 113 Korean exporting firms. The research is part of a larger project examining export incentive policies in the developing countries, a project under the general direction of Bela Balassa. The firms interviewed were much larger than the average Korean firms.

The average work-force of the surveyed firms was more than 2,500 compared with a national average of 50.

After an introduction on Korea and its export-oriented success, Chapter 2 describes the Korean system of incentives. Chapter 3 examines the way exporters regard two key institutions of the system, namely export targets and monthly trade promotion meetings. Chapter 4 looks at the ways of acquiring technology that Korean exporters regard as important. Chapter 5 examines who does what in marketing Korean exports, and Chapter 6 explains the probable causes of Korea's set-backs in the late 1970s, speculates on some of the challenges in the 1980s, and details some of the lessons of Korea's experience for other developing countries.

Many studies have shown that, after the reforms initiated in 1964, Korean exporters were able to buy their inputs at world market prices (whether actually imported or not). This virtually free-trade regime applied only to exports. This study endeavours to explore the dynamism and inner working of that set-up: what administrative arrangements enabled the incentives to be right? How was the political leadership's commitment to economic development translated into action by the bureaucracy and by firms?

Among the different export incentives giving free access to imports, the study reveals the use of a domestic letter of credit (L/C), an example of innovation by the Korean export administration. With a domestic L/C issued by an exporter's bank on the basis of a direct export order, the indirect exporter can qualify for the same incentives (tariff-free inputs, export loans) as the direct exporters. So can the suppliers of those suppliers for the part of their production that ultimately will be exported.

Annual export targets are set for firms, commodities, industries, and overseas markets, broken down by quarters and months. The head of the export promotion office in the Ministry of Commerce and Industry is pro-

vided each day with a computer printout of progress against targets by industry and by firm. The data is for the preceding day. If sales in a region are not up to target, the Korean ambassadors there are recalled to find out what the problems are and what can be done. To the question "Why is reaching export targets important?" firms mentioned most often the recognition accorded by the government. Some big firms were prepared to suffer short-term losses in the expectation of long-term advantages for capacity expansion and the bureaucratic support needed for the firm's day-to-day operations.

The system of export targets and the practice of holding monthly meetings are two important institutions for forging the synergistic partnership of government and business. They consequently have some manipulative aspects: the President manipulates ministries and firms, the ministries manipulate firms, and the firms try to manipulate ministries.

The study also stresses the selectivity of firms in acquiring and mastering technology. They imported the technology they could not obtain at home and did this in a way that would allow them to have local capabilities progressively supplant foreign capabilities in successive technology transfers. Korean entrepreneurs were often able to unbundle the packages from foreign sources (technicians, machines, manuals) that characterize many transfers of technology. The sources that exporting firms identified about half the time as being important were Korean. The technology had been adapted and assimilated to such a degree as to be considered Korean. According to the study, this selectivity may have been greater because of Korea's export trade policy. Under a regime of import substitution a country wants to produce everything rather than specialize.

Korean firms embarked on marketing slowly, letting foreign buyers initially do much of the work. It was not until the mid-seventies that the government encouraged the formation of large general trading companies, which now handle half of the country's exports.

According to the study, the set-back in 1980 can be traced to the failure to plan investment in heavy industry with the usual mix of flexibility, speed, and pragmatism. The investments in heavy industries were accelerated by President Carter's proposal to withdraw U.S. troops stationed in Korea. This second stage of import substitution weakened the singular objective of export-led economic development. The heavy industry projects had no international yardstick for assessment and their expected viability was based on unrealistically ambitious expectations of international competitiveness and exporting. For the future, the Korean economy will require more decentralized decision-making, greater reliance on the market, and greater efforts in R&D to break into the club of developed country competitors.

The question of the replicability of the Korean experience is briefly touched upon. The book pays some lip-service to the objective factors which differentiate Korea from many developing countries and concludes that, with a dedicated government, aggressive businessmen, disciplined workers, and the right incentives, it is possible to have world trade lead a country's economic growth and development. The argument that the international environment has changed to greater protectionism is brushed aside.

One may regret with the authors the absence of technology-intensive industries in a book published in 1984, when Korea is engaged in a dynamic drive into "high-tech". The study offers many hindsight on how selective Korean firms are regarding technology transfer, but it does not investigate the process of mastering technology. In the case of Pohang Steel Industry, the construction time was roughly two thirds that needed for similar plants in Italy or France, and Korean steel products are now making inroads into the Japanese market. The success story of the shipbuilding industry is known: not only did Hyundai not have any previous experience in shipbuilding, but Korea itself had never pro-

duced a vessel larger than 10,000 tons when the Korean firm built its dry dock, which was completed together with the building of two large oil tankers. Without this ability to master technology, the free-trade regime applied to exporters would have resulted in an increasing inflow of imports and the value added by this export drive policy would have been very low.

This book is well written and is an interesting addition to the numerous works dealing with the Korean success.

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Small- and Medium-Scale Industries in the ASEAN Countries: Agents or Victims of Economic Development? By Mathias Bruch and Ulrich Hiemenz. Boulder, Colorado and London: Westview Press, 1984. Pp. xiii, 130.

Small- and medium-scale industries are generally believed to contribute to employment creation and the generation of income, particularly for low-income population groups. Nevertheless, experience shows that government industrialization policies generally favour large-scale industries that are more easily able to take advantage of facilities offered. In this study undertaken by the Kiel Institute of World Economics and sponsored by the Volkswagen Foundation of West Germany, Bruch and Hiemenz gather evidence on the role played by small and medium industries in the ASEAN countries. The assessment of the economic efficiency of manufacturing establishments in Malaysia, the Philippines, and Singapore shows that all countries' small and medium industries proved to be economically more efficient than large establishments in approximately half the 24 industrial sub-sectors included in the analysis. This does not mean that small and medium industries will necessarily continue to be more efficient *per se*. In