War and the evolution of economies, states, and societies have historically been inextricably intertwined. Certainly, as a number of analysts have observed, war is a profound agent of change.\(^1\) Of course, wars, or collective violence on a broad scale, come in many forms and sizes, from the widespread devastation and global reach of the second world war to the limited and confined actions of many insurgency campaigns. Yet, however local the consequences of wars may be, they invariably have a major effect on the lives of those individuals and institutions they touch. And, as the studies of the impact of war on the development of the economy, society, and state system of Europe have detailed, major wars can have an enormous influence over the development of countries and regions.\(^2\)

Despite the evident importance of wars to the course of history, they have had little impact on analysts interested in economic development beyond Europe and the major powers.\(^3\) Nowhere has this lack of attention to the economic consequences of wars and preparation for war detracted more from our understanding of events than in East and Southeast Asia. From the early 1940s to the late 1980s this region was beset by the second world war, the Chinese civil war, the Korean war, the Vietnam war, “confrontation” over the formation of Malaysia, the Vietnamese occupation of Cambodia, a series of local guerrilla wars, and the overarching cold war, which constantly threatened to explode into open warfare in places such as the Korean peninsula and the Taiwan straits. In the same period emerged a number of strong states and rapidly expanding economies, notably Japan, the four newly industrialized economies (South Korea, Taiwan, Hong Kong, and Singapore), and the two near industrialized economies (Malaysia and Thailand). Although the links between the sequence of wars, on the one hand, and the development of these seven strong states and successful economies, on the other, are highly complex, they clearly should not be ignored. To what extent have wars and the threat of war been a crucial factor in the development of these seven successful economies?

The intent here is not to ignore conventional explanations of the economic success of the region. Many valuable insights have emerged from the debate between neoclassical economists who emphasize outward-looking, market-conforming policies and the limited role of the government and “statists” who stress the intervention
of strong states in the economy to provide a comparative advantage for particular industrial sectors and companies. Similarly, an increased understanding of the origins of the region's economic success has come from analyses of the effects of industrial product cycles and the diffusion of particular Japanese industries, such as textiles and light electronics, to the countries of East and Southeast Asia as well as from the role played by Confucian culture in the region's economic development.

And, most recently, new insights have been gained from the debate around factor accumulation and productivity growth in the region. The following analysis is instead based on the argument that a complete analysis of the economic success of these countries must take into account the sequence of wars that swept across East and Southeast Asia during the period of rapid economic development. Conventional explanations have to be combined with an understanding of the economic consequences of regional warfare and the preparation for war to fully appreciate the origins of the region's economic success. To date, the way in which wars have shaped the region's economic development has largely been ignored.

In examining its impact on economic development, war should be broadly conceived. As studies of warfare in Europe have shown, not just fighting and its repercussions but also the threat of war and mobilization in preparation for a possible conflict are crucial in shaping economic development. Moreover, the threat or eruption of internal wars can be just as influential as interstate war in molding state institutions, economy, and society. The location of East and Southeast Asia as a battleground in the second world war and then in subsequent American attempts to contain Asian Communism, in terms of both interstate and insurgency wars, has provided a significant geostrategic context for rapid economic development.

The economies of these seven countries have unquestionably come a long way in a relatively short time. The World Bank has even designated them "miracle economies." However, it should not be assumed that all these economies developed in exactly the same way or at the same pace. For example, South Korea's economic development, in terms of industrial structure and timing, has differed in a number of respects from Singapore's and Thailand's. Yet all have moved in roughly the same general direction, achieving rapid economic growth primarily through changing from import-substitution industrialization, which emphasized the substitution of imports with domestically produced goods, to export-oriented industrialization, which put a premium on exporting competitively priced manufactured goods to overseas markets. While in most cases import-substitution industrialization was never completely abandoned, the switch to export-oriented industrialization marked the beginning of rapid economic growth in each of the seven successful economies.

The sequence of wars and threats of war which engulfed the region from 1941 to 1989 played a major role in establishing successful export-oriented industrializing sectors in Japan, South Korea, Taiwan, Hong Kong, Singapore, Malaysia, and Thailand. Geostrategic factors did not have a uniform impact on export-oriented
industrialization because each country had distinctive economic and political institutions and developed an export-led industrializing strategy at different points in the sequence of wars. For example, those economies that turned to export-driven industrialization relatively early gained much more from geostrategic factors than later converts such as Malaysia and Thailand, where the impact was more indirect. Across the seven economies, however, there are interesting and instructive similarities in the way in which war and preparation for war contributed to the success of export-oriented industrialization.

The Effects of War

Any country preparing for war, directly involved in a war, or even close to the theater of war can experience its destructive, formative, and redistributive effects. The states on whose territory wars are fought are more likely to suffer the destructive and disintegrative effects of war. These effects include widespread loss of life, forced migration, social and political dislocation, the greatly diminished capacity of the institutional state and even its total destruction, severe shortages of essential commodities such as food and fuel, the destruction of the economic infrastructure and productive capacity, and the undermining and in the worst cases breakdown of the economy and collapse of the debt-ridden state. Of course, all of these effects may combine to lead to civil war or revolution which may perpetuate the downward spiral of social, economic, and political disintegration.

States preparing for war or on the periphery of the theater of war but allied in one form or another to one of the protagonists are more likely to experience the formative or developmental and redistributive or reformative effects of war. Formative or developmental effects include territorial gains, unification of society through exploitation of the external threat, the centralization of government and power, enlargement and rationalization of state administrations, broadening and deepening of the state’s revenue base, development of new technologies, mobilization of under-employed people and capital for productive use, and growth in sectors of the economy that are given the opportunity to be innovative or priority by the government and are not destroyed by fighting. Many of these formative effects have long-term consequences. For example, taxes and bureaucracies may be reduced after wars, but they never seem to return to their prewar levels.

Redistributive or reformative effects include domestic redistribution of wealth through spending on the war effort, regional and international redistribution of wealth through aid to allies, redistribution of wealth through changes in trading patterns and the emergence of new markets, the socialization and integration of society, increases in the educational and skill levels of large portions of the population, habituation of government intervention in the economy and society to promote eco-
nomic development, social cohesion, and compliance, and opportunities for a popular leader to introduce reforms not possible in peace time.

Similarly, the way in which civil and guerrilla wars are fought, for example, whether the military or the civilian side of the state is in charge of the counterinsurgency campaign, will determine whether the fighting has a primarily disintegrative or formative impact on the state, economy, and society. Equally important, societies can experience a mix of all three kinds of effects of war, either in one major war or, as in this case, in a fairly rapid sequence of wars.

In combination and often in sequence, then, the effects of war can be critical to the political and economic development of a country and region. Analyses of the impact of wars on European political and economic development over the last few centuries alert us to a number of linkages that may better explain the origins of East and Southeast Asia's recent economic success. First, war and the preparation for war give considerable impetus to the creation of state structures and promote the "civilization of state power" through the development of a central bureaucracy designed to mobilize resources for the expansion of the military. Second, the relationship between capital and coercion is key to understanding the impact of wars. The sources of the capital used to prepare for or conduct war and the way it is mobilized affect the development of the state, economy, and society. Third, the interventionist state in Europe was associated with the confluence of industrialization and the preparation for and fighting of wars. Moreover, war and mercantilism went hand in hand as states sought to enhance their economic position by preparing to wage or actually fighting wars. Finally, wars close old markets, open new ones, and generally change the existing patterns of trade. Not only belligerents, but also other countries in the region may be affected. The following analysis will explore these linkages in East and Southeast Asia through the impact of wars on the rise of the strong state, injection of capital into the region, and emergence of key markets in the shift to an export-oriented industrialization strategy.

The Strong State

One of the key conditions for the development of a successful export-oriented industrialization strategy in East and Southeast Asia was a strong institutional state linked to the business community and able to adopt and fully implement the necessary policy reforms. The presence of strong institutional states in East and Southeast Asia contrasts with most countries of the Third World, where, as Migdal has noted, colonialization and the penetration of western capitalism tended to produce strong societies and weak states. In most Third World countries, therefore, political power rested with social groups that dominated the commodity export and import-substituting sectors. In their own interests these groups were inclined to oppose policies, such
as devaluation, reduction of tariffs, and lifting of restrictions on foreign direct investment, required to promote export-oriented industrialization.

In the seven economically successful states of East and Southeast Asia after the second world war, societies were relatively weak, and the institutional states became relatively strong and autonomous. The reasons for this dichotomy between strong state and weak society are tied to the series of wars in the region. First, the second world war and its chaotic immediate aftermath devastated the social and political order of the region. Some of the disintegrative effects of war were widely discernible. From the “sea of rubble that was all that remained of western Tokyo in September 1945” to the horrendous malnutrition caused by food shortages in parts of Malaya (as peninsular Malaysia was called then), the physical evidence of the upheaval and confusion left in the wake of the fighting and the Japanese occupation was everywhere. Less easy to detect but just as important was the dislocation of the prewar patterns of social and political order. The second world war, the civil war in China and the consequent massive emigration to Taiwan and Hong Kong, the Korean war, and the guerrilla wars of Southeast Asia, especially in Malaya, all weakened the cohesion and influence of previously significant social groups and power-brokers. Hence the East and Southeast Asian states that emerged after 1945 and eventually became economically successful did not face the same strong social opposition to the development of export-oriented policies found in other areas of the world.

Second, the formative effects of war on the state’s capacity were evident in its rapid development in the seven successful economies. Expanded policy capacity was prompted by the perception that Asian Communism posed an immediate and sustained threat that required the mobilization of all possible resources. Of particular concern are two aspects of state capacity: coercive and civil. The expansion of the coercive dimension of state capacity in South Korea, Taiwan, Thailand, and to some extent Japan owed much to American military aid. This aid was liberally supplied, with the express intent of containing the perceived threat from the Communist governments in North Korea, China, and North Vietnam. The police, intelligence agencies, and especially military were speedily reinforced. In Malaya and Singapore the windfall revenues of the early 1950s, created by the boom in commodity prices following the outbreak of the Korean war, allowed both governments to enlarge and train the military and police and expand the operations of the intelligence organizations to mount a successful counterinsurgency campaign against the Malayan Communist Party.

Similarly, the civil side of government capacity grew rapidly, in good part due to the need to mobilize and coordinate financial, manpower, and other resources to meet the military threat posed by Communist neighbors and insurgents. War and military confrontation inevitably put pressure on a government to increase its size to defend its very existence. The economically successful East and Southeast Asian
states were no exception. However, these countries also had the funds necessary to develop their civil capacity. American aid and the revenue from the prosperity generated by the Korean war were key factors in the development of sizable, skilled bureaucracies that could contribute to defense. Just as significant, these bureaucracies were also able to plan and implement policies designed to promote industrialization.22

Third, as a consequence of the reformatory and redistributive effects of the prevailing geostrategic context the relationship between the state and society was greatly altered. Certainly, the security situation throughout the region placed social forces on the defensive and thereby enhanced the state’s autonomy. People were prepared to give their governments more powers to deal with the perennial and very immediate threats to society’s security. Generally, the hegemonic project of building a strong economy to meet the Communist threat was widely accepted. Labor was essentially suppressed as independent workers’ organizations and, indeed, all other left-wing groups were closed down by governments fearful they might be a cover for Communist activities. Moreover, businesses that often owed their success to the state’s dispersal of scarce capital or other forms of state subsidization were anxious to cooperate with the state. In most cases the state was thus able to frame the country’s economic development policies without having to take undue account of domestic pressures. Popular and interest-based resistance to the introduction of an export-oriented industrialization strategy could be overcome. And, as the economy expanded and the Communists were successfully kept at bay, the government’s legitimacy, rooted in performance rather than representation as in western liberal democracies, was substantially enhanced.

These factors enabled the institutional states of the successful seven East and Southeast Asian economies, most usually in response to a balance-of-payments crisis, to move away from a strict import-substitution industrialization strategy and implement the policies necessary for the development of an export-oriented strategy. In 1950 the western ban on trade with the newly constituted Communist Chinese government forced the British colonial administration in Hong Kong to abandon its traditional entrepôt role and adopt an export-oriented strategy. Japan increasingly emphasized export-led growth from the mid 1950s as the ministry of international trade and industry (MITI) sought ways to deal with balance-of-payments problems associated with increased imports of raw materials and a reduction in the purchase of goods and services by U.S. forces in the region. Similarly, Taiwan and South Korea turned to export-oriented industrialization in the early and mid 1960s, respectively, because of balance-of-payments difficulties and American pressure.23 The Kuomintang government had few links to Taiwanese society and was relatively independent of social pressures. The 1961 military coup led by General Park Chung Hee in South Korea also produced a relatively autonomous state. For Singapore, which found itself abruptly thrown out of Malaysia in 1965, the options were limited, and
export-led economic development was the only rational policy it could adopt. The People's Action Party (PAP) was able to use the battle with the Communists for control of the government and the regional geostrategic threats to the survival of the small new state to maintain a tight grip on Singaporean society.

For the near industrialized economies the shift to an export-oriented strategy came much later. In Malaysia possible resurgence of the Communist guerrilla force in the mid 1970s, continued ethnic tension, and Vietnam's intentions after its December 1978 invasion of Cambodia gave the government justification for maintaining strict control over opposition to its policies. Malaysia was thus able to move gradually towards an export-led industrialization strategy during the 1970s, shifting into high gear in the early 1980s. In Thailand the long dominant position of the military and the bureaucracy was further reinforced by the need to mobilize resources against the internal threat from Communist guerrillas and the external threat from Communist Vietnam. These factors, plus the U.S. aid that poured into the government's coffers during the Vietnam war, eventually gave the government the capacity to fashion an increasingly more complex economy. The main shift to an export-led strategy came in 1984 and 1985, when the government sharply devalued the baht and substantially changed the import and export tariff structures.

Not all states were equally strong and equally able to initiate all aspects of an export-oriented strategy. The "strong state" of South Korea differs markedly from the institutional states of Malaysia and Thailand. However, aided by the geostrategic context, all seven states were capable of shaping their economies and were strong enough to adopt and implement export-oriented policies when faced with a crisis that called for a new economic strategy, in direct contrast to the institutional states of many Third World countries. When faced with an economic or political crisis, most other Third World governments either did not sufficiently control their economies to initiate an effective export-led strategy or were too politically weak to overcome social and economic interests intent on perpetuating the dominant import-substitution approach. The obvious counterexample to the success of the East and Southeast Asian countries is the Philippines, where the succession of Spanish and American colonial rulers left a legacy of weak central government and relatively powerful regional strongmen. Neither the second world war nor the Huk rebellion seriously undermined the traditional social and political order, and there was no cold war-induced expansion of the institutional state. As Gary Hawes has noted, "the lack of a strong state leadership and the complementary tendency of the state to respond in preferential, partisan fashion to demands from segments of the bourgeoisie characterized the Philippines after independence." Moreover, in contrast to the state building that accompanied the counterinsurgency campaigns against Communist guerrillas in Malaysia and Thailand, power in the Philippines during the martial law years of Marcos' regime reverted to regional autocrats after a brief initial period of centralization of authority. Because regional powerbrokers have prospered from
import substitution, attempts to deal with numerous balance-of-payments crises by launching an export-oriented strategy have been fraught with difficulties. Finally, the weak predatory central state set the stage for pervasive pork-barrel and provincial patronage politics. Thus, until recently little money was invested in economic infrastructure and other measures that might attract export-oriented foreign direct investment.

The Supply of Capital

To develop an export-oriented industrialization strategy the successful economies of East and Southeast Asia had either to develop an export capability out of their import-substitution industries or to attract export-oriented foreign direct investment. The key to the introduction of an export-led strategy was the availability of capital. Geostrategic factors ensured the necessary supply of capital in most of the seven successful Asian economies. Just as important, these same geostrategic factors also provided the incentive—enhancement of the defensive capacity of the country—for the construction of roads, railways, and port and airport facilities. This infrastructure later served to move raw materials into and finished goods out of the countries. Hence war and the threat of war played a critical formative, reformative, and redistributive role in the emerging economies of East and Southeast Asia.

In Japan the Korean war injected the much needed capital into the economy. Special procurement income from orders placed by the U.S. military seeking supplies for troops in Korea rose from zero in 1949 to nearly U.S.$600 million in 1951 and U.S.$850 million in 1952. Because of Japan’s strategic location and vital role in containing Asian Communism the Americans continued after the war in the 1950s to spend nearly U.S.$600 million a year in Japan on bases, personnel, and other military-related matters. Between 1952 and 1956 more than a quarter of Japan’s imports were paid for by U.S. military purchases. The Korean war clearly stimulated export industries. In 1952, for example, "63 percent of all Japanese exports were taken by the war." Moreover, the Korean war encouraged the U.S. to provide technology to Japan’s fledgling industries. Many of Japan’s major industrial companies were saved by what prime minister Yoshida referred to as the "gift of the Gods." As Borden has noted: "Most critically, the boom advanced Japanese industrial modernization, the key to subsequent export recovery." In addition, the Vietnam war, "which allowed Japanese firms to earn at least an extra U.S.$1 billion per year, on average, from all sources during 1966–1971," pulled Japan out of the 1965 slump, pumped money into key infant export industries, further opened up both U.S. and Southeast Asian markets to Japanese goods, and generally marked the "opening stage of economic ‘maturity’ for Japan."

Hong Kong was forced into export-oriented manufacturing by a combination of
Richard Stubbs

two major geostrategic events: the Communist victory in China in 1949 and the outbreak of the Korean war. First, as the Communist army swept southwards and people fled the fighting, there was a massive influx of skilled textile workers, entrepreneurs, machinery, and funds into Hong Kong from Shanghai. More than 330,000 people arrived in Hong Kong from the mainland in 1949 and 1950. From 1947 to 1951 the number of spindles installed in Hong Kong rose from 6,000 to 180,000.34 Second, in response to China’s entry into the Korea war and the widespread perception that Communism was attempting to spread its influence throughout Asia Britain, the United States, and other western powers placed an embargo on trade with the new regime in Beijing. Hong Kong lost its entrepôt role and was thus forced to adopt an export-oriented strategy. Building on the resources gained from the Shanghai exodus, including equipment and capital, textiles became the main driving force behind Hong Kong’s economic success in the 1950s and 1960s, and, overall, manufacturing provided a rapidly increasing portion of the colony’s GDP.

In Taiwan the U.S. government made every effort to fortify the Taiwanese economy to counter the threat from the People’s Republic of China. Between 1949 and the mid 1960s the U.S. contributed around U.S.$1.7 billion in economic aid. These funds served to stabilize the economy, finance land reform, and start the import-substitution industrialization strategy. Around 27 percent of U.S. economic aid went to mixed public and private enterprises, and 6 percent went to purely private enterprises. The Taiwanese government and its American advisors sought to develop the import-substitution capacity of the economy.35 As Wade has noted, a strong import-substitution manufacturing sector was a prerequisite to the successful initiation of a strong export-oriented manufacturing sector.36 Indeed, the export-led strategy relied in good part on entrepreneurs and firms that had previously led the import-substitution drive. American foreign direct investment was also important for the initiation of the export-oriented industrialization strategy from the mid 1960s. The U.S. Agency for International Development (AID) heavily publicized Taiwan’s attractions as a site for investment, and the U.S. government facilitated and protected U.S. investors in Taiwan.

U.S. aid was also important in the development of South Korea’s export-led industrialization. Between 1953 and 1969 South Korea received over $4.2 billion in economic assistance. This American aid “financed nearly 70 percent of total imports from 1953 to 1962” and “was equal to nearly 80 percent of total fixed capital formation.”37 With the help of the funds provided by the U.S., the Korean government in the first half of the 1960s adopted a policy of development defined as “guided capitalism.”38 In the second half of the 1960s U.S. aid plus an increase in revenues allowed the South Korean government to take on the role of “development investor.”39

For Singapore the confluence of its separation from Malaysia, the end of confrontation with Indonesia, and the escalation of the Vietnam war paved the way for
the influx of mainly American foreign direct investment and the turn to an export-led industrialization strategy. Given Singapore’s very small population and hence small domestic market, separation from Malaysia forced the PAP government to abandon import substitution and to adopt an export-oriented industrialization strategy. Fortuitously, trade resumed with Indonesia, and government revenues increased when confrontation ended in 1965. The increased involvement of the U.S. in the Vietnam war after 1965 was also responsible for a relatively large influx of U.S. dollars from spending by U.S. personnel on leave. For example, estimates suggest that in 1967 alone U.S. servicemen spent U.S.$108 million in Singapore. Most important, U.S. foreign direct investment started to flood into Singapore. Initially, at least, this investment was in large measure tied to the rapid expansion of the petroleum refining industry as demand from Vietnam increased. Also, higher revenues allowed the government itself to become “an entrepreneur in a big way.” Together the government and the multinational corporations rapidly expanded Singapore’s export-oriented manufacturing sector.

As in Taiwan and South Korea, in Thailand U.S. aid was influential in setting the stage for the ultimate shift to an export-led industrialization strategy. However, in the Thai case the link between U.S. aid and the initiation of the export-oriented strategy in the mid 1980s was not nearly so direct. In Thailand American aid was originally prompted by both domestic Communist insurgents and Vietnamese Communist expansion. Overall, between the mid 1950s and 1976 the U.S. spent nearly U.S.$3.5 billion in Thailand. These funds promoted, among other things, the development of an import-substitution manufacturing sector upon which the later turn to export-led development could build. However, it was essentially Japanese foreign direct investment in the 1980s that led to the export boom that swept the Thai economy to prosperity. This wave of Japanese investment, induced in part by the sharp appreciation of the yen, had been planned for some time. Japanese companies saw the advantages of investing in a country that had benefited so much from U.S. aid that it had an abundance of cheap, relatively skilled labor, a good infrastructure, and a bureaucracy capable of implementing planned policy reforms. The increase in Japanese foreign direct investment was paralleled by a massive increase in Japanese aid, U.S.$1.2 billion between 1982 and 1986, as the American government put pressure on Japan to take greater responsibility for the promotion of security in Southeast Asia. This pressure was prompted by the threat to regional stability posed by Vietnam’s occupation of Cambodia and the general intensification of the cold war under Reagan’s administration. The aid was aimed largely at infrastructure projects and the development of a manufacturing capacity that greatly facilitated the export-oriented strategy made possible by the flood of Japanese foreign direct investment.

In Malaysia the move to export-led industrialization was less precipitous and less influenced by wars or the threat of war. However, the legacy of the Korean war boom in the form of the country’s relatively good infrastructure, extensive education sys-
tem, and centralized administration should be noted. Internal conflicts, such as the May 1969 race riots, have also had an impact on the way in which Malaysia developed its export manufacturing capacity. The first indications of the government's interest in encouraging export-oriented industrialization came with the 1968 Investment Incentives Act. Following the race riots of 1969 and the perceived need to create more jobs, the government decided in 1971 to accelerate the move towards an export-oriented strategy and established special free trade zones. During the last half of the 1970s the textile and electronic industries grew rapidly due to the influx of American, Japanese, Singaporean, and European foreign direct investment. However, the major expansion of Malaysia's export capacity came in the mid 1980s when Japanese investment flooded the country in search of cheap, relatively skilled labor, good infrastructure, and a competent administration reasonably close to Japan. Between 1988 and 1996 U.S.$6.1 billion of Japanese foreign direct investment entered the Malaysian economy. Other investors, from such places as Taiwan and Singapore, provided similarly significant investments in Malaysia's manufacturing sector. And, as in Thailand, Japanese aid was extremely helpful in promoting the export-oriented strategy.

Wars and the threat of war were not the only sources of funds for the initiation of export-oriented industrialization, nor was the link between war and the provision of capital to promote export-oriented industrialization always immediate and direct. However, war and the threat of war undeniably generated a significant portion of the capital needed to move these East and Southeast Asian countries to an export-led economic development strategy.

Markets

Goods produced for export need markets. Wars, and especially the Vietnam war, were crucial in creating markets for export manufacturing in Japan and the four newly industrializing economies. As Seiji Naya has commented: "The conflict in Vietnam has affected considerably the trade and trade patterns of Asian countries." In particular, the escalation of the Vietnam war and the markets generated by American spending on it had marked formative, reformative, and redistributive effects on South Korea, Taiwan, and Singapore, all of which put an increasingly greater emphasis on export-oriented manufacturing during the 1960s.

The Korean war and the U.S. military's special procurements helped to resurrect Japan's export industries, and the Vietnam war had a further impact on Japanese exports. The Vietnam war also increased Japanese exports to Korea, Taiwan, and Singapore, which had their own procurement orders to fill. Moreover, as prosperity grew in the region, consumers bought more Japanese products. Equally significant, the U.S. market became a major destination for export products from Japan and
other parts of East and Southeast Asia. In contrast to what had happened during the Korean war, one analyst notes, during the Vietnam war "procurement of the great majority of goods and services destined for Vietnam [took] place in the USA itself, and the wages and salaries of serving personnel [were] also largely paid in the USA." Consequently, the booming U.S. economy seemed able to absorb unlimited amounts of cheap consumer products from overseas. Japan exported a range of products from color televisions to automobile parts to airplanes. "Overall Japanese exports to America between 1965 and 1972 grew at an average annual rate of 21 percent."

The Vietnam war proved to be most significant for Taiwan and South Korea. Both countries were able to export to the theater of war a number of products from their fledgling export manufacturing sectors. For Taiwan, by 1967 over 85 percent of cement, nearly 75 percent of chemical fertilizer, over 70 percent of iron and steel, and about 50 percent of machinery exports went to Vietnam. For South Korea, nearly 95 percent of all steel products, over 50 percent of all transportation equipment, and over 40 percent of certain kinds of chemical products were exported to Vietnam. Overall, Taiwan's exports to Vietnam rose from 3.8 percent of total exports in 1960-61 to 13.4 percent in 1966-67, while South Korea's exports to Vietnam rose by nearly 1,000 percent from 1962-63 to 1966-67. Moreover, as Woo points out, the Vietnam war "marked the coming of age of some of Korea's largest conglomerates."

In Singapore the end of confrontation with Indonesia and the growing regional prosperity created by U.S. spending on the Vietnam war led to what Goh Keng Swee, a former finance minister, called "an unparalleled expansion of our entrepôt trade." The number of vessels using Singapore's harbor doubled between 1964 and 1971, and the total merchandise trade similarly doubled between 1964 and 1970. Most remarkably, petroleum exports to Vietnam rose from Malayan$62 million in 1964 to Malayan$393.5 million in 1969. Although there was little value added for Singapore because the petroleum was simply transshipped in Singapore harbor, the development of the petroleum industry earned Singapore the title of "Houston of Asia" and greatly contributed to its current status as the third largest refining center in the world. Repairs to oil tankers and other ships, necessitated by expanded U.S. involvement in the Vietnam war, also increased during the late 1960s. Perhaps most important, similar to the other economies embarking on an export-led strategy, Singapore benefited immensely from being able to export to the booming U.S. market. For example, the value of Singapore's exports to the U.S. rose from U.S.$52 million in 1966 to over U.S.$850 million in 1974. As in Taiwan and South Korea, Singapore's timing was impeccable in terms of being able to take advantage of the overheated U.S. war economy.

For both Malaysia and Thailand the regional wars were only of indirect benefit in providing export markets. Both countries profited from the increase in commodity
prices during the Vietnam war, but, because they developed an export-oriented strategy much later than South Korea, Taiwan, and Singapore, the markets for their rapidly expanding exports had to be more diversified. The main markets included the U.S., Japan and the neighboring Asian industrializing countries, and Europe. Of course, the valuable American market was still open because of U.S. commitments to cold war allies. And, ironically, the U.S. pressure on Japan during the 1980s and 1990s to open up its domestic market to more imports was a huge boon to Malaysian and Thai exporters. For example, Malaysia’s exports of manufactured goods to Japan rose from U.S.$380 million in 1986 to U.S.$5.9 billion in 1995, while Thailand’s exports to Japan rose from U.S.$285 million in 1985 to U.S.$6.2 billion in 1995.  Of course, the bulk of firms engaged in export manufacturing in both Malaysia and Thailand were Japanese companies with access to their home market.

Overall, then, the sequence of geostrategic events, especially the Vietnam war, helped the seven successful East and Southeast Asian economies find markets for their fledgling export manufacturing industries. The Korean war gave a huge boost to Japan’s and Hong Kong’s battered economies. The timing of the Vietnam war could hardly have been better in boosting sales of the emerging export industries of Japan, South Korea, Taiwan, and Singapore. Malaysia and Thailand benefited indirectly by being able to export goods to Japan and the newly industrializing countries, whose consumer markets owed much of their development to the wars in the region.

Conclusion

“Wars make states,” argues Tilly. However, wars and preparation for war also shape societies and economies in significant ways. The relationship between geostrategic events and economic development is complex but nonetheless needs to be examined in detail. Because of the lack of a systematic appreciation of how wars affect political, economic, and social change, our understanding of political and economic events in key regions of the world, especially East and Southeast Asia, is incomplete.

On the effects of wars and the threat of war on the economic development of East and Southeast Asia, three points stand out. First, the sequence of events is crucial. The destructive, formative, and redistributive effects of war all played a part in the rise of the East and Southeast Asian economies. However, the order in which these effects occurred and the point in the sequence at which the decision to adopt an export-oriented strategy was taken were vital to the nature and degree of a state’s successful economic development. The widespread destruction and dislocation caused by the second world war, the Chinese civil war, the Korean war, and the region’s guerrilla wars undermined much of the old social and political order. But the rise of Asian Communism, the Korean war, some of the guerrilla wars, the Vietnam war, and the pervasive cold war provided the incentive and the funds from
U.S. aid, increased commodity prices, and increased trade to build strong institutional states. These newly reconstructed institutional states were relatively unencumbered by opposition from traditional social and political forces and could effectively manage the move into export-oriented industrialization and the expansion of their respective economies. Moreover, the formative, reformative, and redistributive effects of the geostrategic environment were further reinforced by the victory of the Vietnamese Communists in 1975, the Vietnamese invasion of Cambodia in 1978, and the intensification of the cold war in the early 1980s. The incentives for a strong state remained, and funds continued to be made available as Japanese aid substituted for American aid and as Japanese foreign direct investment flooded into the region. Relatively strong states continued to oversee the expansion of export-oriented industrialization and rapid economic development.

Second, the linkages between wars and economic development in East and Southeast Asia indicate the importance of understanding the ways in which wars and the threat of war influence the accumulation of wealth and the distribution and redistribution of capital. The reversal of the destructive and dislocative effects of the second world war could not have been achieved without the threat from Asian Communism and the general geostrategic environment, which induced the massive influx of American military procurement funds, American aid, and the timely opening of the American market to Asian exports. Of course, American funds alone did not produce the remarkable success of the seven East and Southeast Asian economies. Rather, the injection of such large amounts of capital was a necessary though not sufficient condition for the successful shift in the seven economies to an export-oriented strategy. Moreover, confronting the Communist threat provided a hegemonic project that encouraged government officials and business leaders to ensure that the funds were used to good effect in building up the infrastructure, expanding the capacity of the institutional state, and promoting various sectors of the economy.

Finally, wars and the threat of war breed mercantilism. In times of war and even when war is simply on the horizon, institutional states give priority to building up their war-fighting capacity. A strong, independent economy is given precedence over ideas of free trade and liberalization. America during its civil war and Britain and other European powers during the first and second world wars attest to this war-induced protectionist impulse. The neomercantilist export-oriented policies of the successful economies of East and Southeast Asia can be said to fit into this general pattern. Similarly, during war states and the private sector often cooperate extensively to defend national integrity. In a number of the East and Southeast Asian economies the state developed special relations with the major companies. These companies grew as states either dispensed U.S. aid or directed funds generated by increased government revenues from rising exports created by the burgeoning overseas markets associated with the Korean and Vietnam wars. Hence the private sector
expanded as it cooperated with the state; in turn, the state increased its capacity to frame economic policy through its close relationship with business. Given the success that the economies of East and Southeast Asia have enjoyed, this relationship and the habit of state intervention in the economy may be difficult to set aside in the near future.

Overall, then, wars and the threat of war in East and Southeast Asia have had a profound effect on the institutional states and economies of the region. A complete understanding of the shift from an import-substitution to an export-oriented industrialization strategy in the region can not be fully gained without reference to the impact of the geostrategic environment on the institutional states and successful economies. Geostrategic factors must be incorporated into conventional arguments that explain the economic success of these countries. They amplify conventional explanations in numerous ways. For example, they show why strong states that could effectively manage export-oriented economies emerged in the region. They identify some of the key sources of the resources required to build the economic infrastructure and develop a successful export-oriented manufacturing sector. And they also help answer the question why investment in East and Southeast Asia was sustained at such a high level and for such a long period.\textsuperscript{63} Krugman’s argument that accumulation rather than productivity driven growth generated the region’s economic success should be assessed in light of the role war and preparation for war played in mobilizing capital and other resources and directing them into particular sectors of the economy.\textsuperscript{64} In the same vein, Japanese investment in and the diffusion of particular Japanese industries to the new and near industrializing economies have to be evaluated in the context of the favorable economic and political climate which the geostrategic factors helped to create.\textsuperscript{65} More generally, there is a clear need to expand our appreciation and understanding of the complex set of linkages between war and economic development. While some attempt has been made for Europe and the major powers, there is still a great need to explore this relationship in other parts of the world.

NOTES

This article was first presented as a paper at the British International Studies Association, Durham University, December 1996. I would like to thank three anonymous reviewers and the editors of this journal as well as Amitav Acharya, Mitchell Bernard, Michael Donnelly, Paul Evans, Peter Ferdinand, and Grace Skogstad for their comments at various stages in the development of the argument. Thanks also go to the Social Science and Humanities Research Council of Canada for a research grant and Susan Dejesus, Nicole Gallant, and Stephanie Serra for their research assistance.


8. Tilly, *Coercion, Capital, and European States*.


10. World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993). The World Bank includes Indonesia as a “miracle economy.” However, Indonesia is excluded from this analysis because its per capita income is much lower than Thailand’s and Malaysia’s and its manufacturing sector is less important to its overall economy than the other countries’


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17. See Amsden; Haggard; and Wade.


22. Note, for example, that in Japan the U.S. occupying forces were relatively small and were thus forced to leave in place the civilian bureaucracy, most significantly that part of the bureaucracy which had run the wartime economy, See William Chapman, *Inventing Japan: An Unconventional Account of the Postwar Years* (New York: Prentice Hall, 1991), pp. 98–107. Taiwan, of course, inherited its bureaucracy from the Kuomintang government on the mainland. In Malaya the bureaucracy was given a major role in the successful counterinsurgency campaign and as a result grew from 48,000 federal, state, and municipal employees in 1949 to 140,000 employees in 1959. See Stubbs, p. 263.


25. For a detailed review of the shift from an import-substitution to an export-led approach see Haggard, pp. 51–125.


30. Havens, p. 93.


36. Wade, pp. 84–85.
39. Ibid., p. 76.
47. See Havens, p. 94.
49. Economist Intelligence Unit, *Economic Effects of the Vietnamese War*, p. 3.
50. Havens, p. 95.
51. Naya, p. 45.
52. Ibid., p. 41; Economist Intelligence Unit, *The Economic Effects of the Vietnamese War*, pp. 21–24.
55. Ibid., Table A6, on total merchandise trade Table A1.
58. Huff, p. 11.
60. ASEAN Centre, *ASEAN Japan Statistical Pocketbook*, various years.
63. Haggard and Kim, pp. 33, 48.
64. Krugman.
65. Pasuk Phongpaichit, *Decision-Making on Overseas Direct Investment by Japanese Small and
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Medium Industries (Bangkok: Economics Research Unit, Chulalongkorn University, February 1987), pp. 15–19.