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The Formation of a National Market

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Introduction

The past three decades have seen a deepening economic interdependence not only among industrialized countries but also between them and the Third World. In particular, the economic interdependence between industrialized countries and the Third World has been characterized in general by the diversified forms of transactions evolving over the period. The transfer of economic resources between both groups had a pattern of almost complete specialization in the 1960s: primary commodities from the Third World in exchange for manufactured goods and financial resources including private as well as official investments from industrialized countries. In the 1970s, the Third World economies were divided into two distinct economic groups; so-called NIEs which succeeded in increasing the share of manufactured commodities in total export of the world and the other group which retained a similar trade structure as in the former decade. In the 1980s, even NIEs have tended to be divided into two sub-groups, while the other LDCs still depend on the export of their primary commodities despite an increase of manufactured exports; Asian NIEs which have been able to attain trade surpluses and the other NIEs which have been trapped in heavy foreign debts. Such divergence in the course of economic development among NIEs could be attributed to differences in efficiency in utilizing the economic resources available within their economies, especially those transferred from abroad. In addition, there are indications that NIEs of the second generation in the coming decade are emerging from within resource-abundant LDCs, such as some ASEAN countries.

Widening income disparities in the World as well as among LDCs, which are expected to be exacerbated by technological gap at the level of new technology, have given rise to trade conflicts especially between industrialized countries and

NIEs as well as among the former. Differing preoccupations as to the present trade regime among trading countries induce contradictory reactions among them ranging from protectionism to reduction of trade barriers, depending on their balance of payments situation, though they share a common policy orientation to the creation of a new form of international economic order. The US-Canada Free Trade Agreement in 1988 and the European integrated market to be scheduled in 1992 can be construed as one of responses of industrialized countries, while many negotiations in such international organizations as GATT, IBRD and IMF are under way in order to create new rules of game in favour of free trade in the international arena. In the Third World, many governments have embarked on the deregulation of economic control including the privatization of public concerns, lowering of import quotas and reduction of tariffs, whether on its own initiative or at the request of their trading partners. On the other hand, the incidence of high economic growth of "successful" NIEs and some LDCs has resulted in upheavals of social and political dimensions claiming popular participation in democratic politics and trade union movements in the latter half of the 1980s, as happened in the Philippines, Taiwan and South Korea and some Latin American countries. Even socialist countries plagued by their stagnant economic conditions have begun to introduce the market mechanism in their command economies associated with democratization aspirations, as seen in China and Eastern Europe in the recent years.

The brief review of the course of economic development in the Third World countries in the past three decades reveals that the process of economic interdependence has had close interplays with social and political evolutions within them. Provided that the evolution of economic interdependence in their domestic market could be tantamount to the process of integration of local markets, economic development could be interpreted as an economic process taking place in tandem with the expansion and integration of local markets and fostering national identity among regions with conflicting perceptions to nation-building. It is anticipated that such politico-economic interactions will become more manifest in the Third World towards the 21st century.

In this paper, I would like to look into the process of integration of local markets in LDCs in reference to the experiences of industrialized countries especially at the advent of capitalism in their economic histories which could be compared with the economic changes of the present-day LDCs.[1]

I. Domestic Economic Interdependence

The history of economic development of an industrialized country shows that the process of economic development entails an integration of its divided domestic market where local markets had in general their relative autonomous economic system and regulations in the pre-capitalism era even if their territories were under the political control of a monarchical or feudalistic regime. For example, Japan was divided into more than 60 feudal dominions before the Meiji Restoration in 1868, which had their own currency and customs system, even though the flow of people and commodities expanded beyond their borders in the progress of economic development. And local people possessed a sentiment of more belongingness to their "country" than to "a nation" as a whole. It was almost after the Meiji Restoration that Japan was unified as a national market with the national identity shared among people in the "countries." The integration of local markets was facilitated by the total abolishment of the laws and regulations on economic transactions set by the feudal lords in the Edo Era because the Meiji government had a firm intention to enhance the economic and military power at the national level against imminent threats of being colonized by Western powers. In England, the Civil Revolution in the 17th century that spearheaded the Industrial Revolution in the 18th century freed the rising class of bourgeoisies from many feudal constraints on their economic activities, which paved the way for the integration of local markets leading to the consolidation of a national market in conformity with the evolution of a nation-wide division of labour.

A local market in general coincides with a cluster of village communities, an ethnic territory, a remnant domain of the previous political institution or a remote region. Local markets remain to be almost autonomous in their basic economic necessities. Exchange in kind is prevalent in any aspect of economic activity within a local market except on market days. The most basic pattern of exchange can be observed in the case of production factors; labour, land and capital goods. It is essentially an exchange between the same production factors. Mutual help that signifies the equal exchange of labour is very popular, land tenure takes a form of family, clan or communal ownership, which prohibits an exchange for other factors or products except for renting on such special occasions as festivities, and the rental of a buffalo that is the most important capital asset is paid by raising it and sharing its calves. In other words, such an exchange system is based on a common understanding of equality in exchange among community members. Furthermore, there are forms of exchange between different production factors in the sense that the ownership of land or capital is shifted. One example is pawn of land. On such special occasions as religeous or matrimonial ceremonies, a piece of land is allowed to be put on pawn in order to collect necessary things. The communal custom usually rules that its pawn period is a certain time span, for example two or three years. Its pawn rate is determined as a certain rate of its harvest. On the other hand, commodities that are not produced locally carry a certain range of price and are traded on market days.

Petit traders and hawkers are motivated to take the most advantage of the price differentials of their commodities between local markets. Such economic characteristics of local markets indicate that prices of a commodity prevailing in local markets may have no tendency to converge to a certain common price level among them, as is observed in the market economy.

In general, producers including farmers in a local market may not have any motivation of profit maximization because they have no explicit concept of profit in such economic circumstances of a local market as described above. Instead, however, they endeavor to maximize production on their fields. Such producer's behaviour does not contribute to the formation of a market price of his product.

The implementation of development policies by a LDC government has facilitated to a large extent the integration of local markets to a national market. During the past three decades, most governments of LDCs have formulated a development strategy of industrialization, whether outward-looking or inward-looking, and created a variety of modern manufacturing industries, whether state-owned or private ones granted with such incentives as state subsidies and protected with high tariff rates, especially in such light industries as textile goods and electric appliances. Those new industrial products have penetrated local markets along with the extention of their distribution networks beyond them, which have helped to integrate gradually local markets not only for commodities but also for production factors during the industrialization period. Public works undertaken by government exert similar effects on local economies. Economic activities and ideas brought about by modern technologies embodied in new products, for example, high yielding varieties of rice and wheat, tend to induce pecuniary motivations in economic transactions. Wage labour replaces a mutual exchange of labour. New shops dealing in modern commodities and factories manufacturing industrial products pay money wages to their employees instead of a wage rate in kind, and government employs wage labour for its public works such as road construction. The private ownership of land becomes dominant instead of the communal ownership. In particular, the private ownership was promoted during the colonial times for the convenience of land utilization and tax collection by the colonial administration and enterprises. Transactions in money enforced by them brought about the concept of an interest rate that was equivalent to a pawn rate for an infinite period, and middlemen who established themselves as moneylenders especially to landless labourors drew borrowers' attention to an interest rate imposed on their debts. A rental for a buffalo or a thresher can be easily imputed in money terms, instead of a portion of harvest.

As a result of such monetization of a communal economy, the concept of a profit rate comes to be recognized by degrees among merchants and producers in a local market, which is conducive to mobilization of production factors among local markets along with the expanding markets for new industrial products. As far as a communal economy is concerned, its economic activities seem to be in general very rational in response to market motivations from outside, under the constraints of its traditional customs and rules.

In the transitional period, however, contradictions in economic behaviour can be observed inside one community as well as between communities. For example, perceptions to work habits are different among the classes in a local community. Farmers, whether landowners or tenants, have no clear distinction between value imputed to their labour input and profits, because they still stick to production maximization. Traders who make the most use of price differentials among local markets can assess their business in terms of profits, but even they seem to have no clear concept of input expenses, especially that of labour input. Another example is the coexistence of a mutual exchange of labour and wage labour. Community members are likely to accept their village head's traditional authority to ask them for free labour for government public works as if they were communal undertakings while they are employed as wage labourers on other farmers' fields. Moreover, there are differences in the perception to economic rationality among communities due to differences in traditional communal customs and in modes of economic exchange, even though the market for modern commodities seem to be well developed beyond local markets. In general, however, the labour market tends to be easily integrated in comparison with the other factor markets because there are fewer constraints on the migration of people.

II. The Foreign Sector as an Enclave

The economic histories of industrialized countries show that a new pattern of division of labour evolved in a rather autonomous local market in the pre-capitalism period, leading to the creation of a new class of entrepreneurs who ousted merchants with their vested interests in the feudal economic system. In the course of the expansion and diversification of economic transactions among and beyond local markets, especially during the "Industrial Revolution," manufacturers who took the most advantage of technological development helped to integrate local markets into a national market. In parallel, the "Civil Revolution" established an ideology of economic freedom for a new class of capitalists which replaced the monopolistic "guild society." The emerging capitalist class spawned a new class of traders mostly from within itself who dealt in new products not only in an expanded national market but in foreign markets. In the cases of Japan and Germany which were latecomers of capitalism, the pre-conditions of capitalism were prepared by the absolute regime which initiated the modern industrialization by converting its bureaucracy into a powerful machinery to mobilize economic resources from the agricultural to the modern sector including manufacturing and commerce. While competing fiercely wtih other colonial powers, they expanded their colonies and penetrated foreign markets by setting up state concerns or providing protectionistic policies favourable to them[2]

The economic development of an LDC which was in general a monarchical state at the time of its contact with foreign powers has had quite a different course of economic development. Even though its domestic market was rather segmented in the political as well as in the economic sense, it has some local markets that have developed close interactions with foreign economies since it was colonized. The economic activities of the colonial empires centered mostly around trade between their industrial products and primary commodities in their colonies. Traders of the colonial empires exploited exhorbitant price differentials of commodities between their domestic market and colonies. At the initial stage of colonization, colonial enterprises monopolized the distribution of primary products. Then, they established the colonial production system to secure a stable supply and a low price level of their primary products. In order to warrant a secure supply of primary products in their colonies, they forged colonial production systems, such as "plantations," which transformed the colonies' traditional ones to such a point that their communal political and economic institution was almost destroyed. Communities and local markets entrenched in a colonial production system were intricately and directly connected with the economic structure of a colonial empire and became "an enclave" in the sense that it had few economic transactions with local economies surrounding it except for supplies of workers, daily necessities for them and materials required for colonial production. The plantation economy typically represents such a colonial system. Above all, a large-scale plantation provided plantation workers in a settlement with such types of social infrastructure as a school and a church. Within the plantation economy, trade and investment were closely related, and the plantation management was interested only in securing investment dividends for its investors residing in their far-away home countries, with no intention to plough back their profits in local economies except in their enclaves. As a result, the autonomous local markets remained outside the plantation economies. It could be said that a huge amount of resources were transferred from the colony to its suzerain in the form of saving surpluses at the cost of low wage rates and land rents. The factor prices were determined at so low levels by the colonial administration that the local communal markets which were involved in the colonial economy were totally altered to an export-oriented economy without any regard to its domestic division of labour on its own. And communal economies outside the plantation remained almost as autonomous as before.

One example is the "Cultivation System" introduced in Java by the Dutch administration in the 19th century. It adopted the private ownership of land through which a number of rice fields were turned into sugar plantations in collusion with local aristocrats or village heads by Dutch enterprises. Plantation workers were often mobilized in the disguise of the community customs. When sugar plantations were returned to rice farmers, the irrigation systems constructed for sugar farming proved to be very effective to an increase in the land productivity of rice production. But a rapid increase in rice production was almost consumed by an increasing population, resulting in little saving surpluses that would have been made available for investments in the non-agricultural sectors. After the World War, the plantations for primary products were taken over by the Indonesian government, and remained to be an important export sector that was similar to one during the colonial times. But the government has neither succeeded in improving their productivity so as to be able to maintain their capability to export, nor in converting them into other production assets. Most of them seem to keep features of an enclave in the national economy, though their earned foreign exchanges and profits are retained for domestic uses.

After independence, any government of LDC started an industrialization policy aiming at import substitution or export promotion depending on its economic conditions inherited from the past colonization in the hope that it could accelerate its economic growth by reducing dependence on the low productivity of the agricultural sector. Most LDC governments except for socialist countries have pursued one of these two industrialization strategies by according favourable incentives to foreign investments or technology transfer over the three decades. The export promotion policy which focused on such new manufactured industries as electric appliances depended to a substantial extent upon foreign investments. From the outset, most of them were permitted to operate mainly for export markets, not for the domestic market, which left them as an enclave in the national market. In particular, such an enclave situation is very clear when they are confined to an export processing zone such as Kaoshung in Taiwan and Mariveres in the Philippines. On the other hand, the import substitution policy was targeted for such light industries as textiles, which grew rapidly primarily thanks to joint ventures with foreign companies. The textile industry has been undoubtedly successful in expanding its market all over the country. Large-scale textile companies of joint venture were, however, located within or near the metropolitan region and secured their operations in the domestic market because they were protected from foreign competition with high tariff rates or import quotas. Under these circumstances, foreign investments have rather deteriorated economic disparities among regions than contributed to the integration of local markets, whichever strategy was adopted.

And government preferred a monopolistic position for manufactured products that were planned to be produced in the domestic market, such as chemical fibres, automobiles and fertilizers. At the same time, exporters dealing in primary commodities were usually state companies or a few indigenous licensees. A distribution network for a new industrial product was set up under the government guide. Its main purpose is to connect the metropolitan market with local cities and towns. A general observation is that such a nation-wide distribution network has served gradually to integrate local markets up to the present time.

These industrialization strategies, however, have resulted over the last three decades in creating two groups of Asian economies; NIEs and the other. In the 1980s, the former group has been marked for its high economic growth and surpluses in trade account, while the latter for its rather low economic growth and high debt service ratio. Such a difference in economic development between them could be attributed partly to a degree of the integration of a national economy.

Among NIEs the governments of Singapore and Hong Kong both of which were constructed as an entrepot economy under the free trade regime during the colonial times have pursued a free trade strategy after the World War. Their stance on economic freedom has led them to the integration of their economies with the world economy. Another factor favourable to the market integration in these two economies is that they have had few obstacles to the formation of a uniform domestic market because of their small market size as well as their historical conditions which have no such pre-capitalistic system as the feudal regime. Now the economic structure of both countries is so closely interconnected with those of industrialized economies that they constitute, it could be said, a part of the latter in view of the fact that more than half of investments in the manufacturing sector come from the latter.

On the other hand, the Taiwan government has provided foreign investments with incentives since the early 1950s because it felt a severe shortage of investment resources to recover from the war damages on the national economy. It established an export processing zone in Kaoshung in 1966 for the first time in Asia in order to facilitate foreign investments. At the initial stage of industrialization in Taiwan, therefore, foreign investments constituted in general an enclave, and the domestic economy was almost divided into separate local markets that were dominated by agricultural production. The Taiwanese government continued to promote foreign investments by enactment of a series of laws and regulations favourable to them and by addition of more free trade zones in other regions such as Taichung. One repercussion of her foreign investment policy was that Chinese emigrants began to respond to them. Their investments in Taiwan induced investments from other foreign countries, especially from the U.S. and Japan. Furthermore, the investment incentives, coupled with the industrial policies, boosted Taiwan's domestic investments, though relatively of a small scale, in the manufacturing sector in local regions, which served to create a nation-wide market for manufactured products.

South Korea adopted quite a different strategy to foreign investments from that of Taiwan. The government preferred the mobilization of domestic investments on the basis of protectionism against foreign direct investments in order to increase export earnings required for economic development. It relied on selective industrial policies rather than on the open door policy. The government provided subsidies to foster indigenous enterprises in such strategic manufacturing and export sectors as textiles, cement, fertilizers, steel and iron, oil refinery, shipping, and automobiles in the 1960s and 1970s, and electronics in the 1980s. The selective industrial policies coupled with the selective financial allocation through the banking system according to the industrialization strategy of South Korea led to the creation of large-scale conglomerates, whose businesses tended to centre in and around big cities. Rural markets were left behind and economic disparities between the urban and the rural markets continued to be widened until the end of the 1970s. In particular, the export promotion policy deteriorated such disparities because the foreign exchanges earned were allocated primarily to the manufacturing industries in the urban areas. But at the same time the government made substantial investments in such infrastructural works as roads, public transportation, which helped to accelerate the flows of commodities as well as people among the urban and the local markets. And the agricultural policies such as the land reform and price-support subsidies for rice were introduced in the middle of the

1970s and increased consumption demand in the rural regions, resulting in acceleration of the integration of local with city markets. Another element that was favourable to the creation of a national market in South Korea is that the government has imposed its very strict regulations on foreign investments after independence. Foreign investments have been allowed in the selected manufacturing industries only if they were expected to bring the management expertise and production technology. Furthermore, no foreign participation was permitted in the commercial and trade sector. Therefore, no foreign investments which might have given rise to an enclave were not permitted in the Korean domestic economy except for a few free trade zones, such as Masan, which seemed to have no positive influence on the integration of local markets. Manufacturing industries have been protected from foreign competition, provided with export incentives and grown to be conglomerates called Chaebols. They have diversified into foreign as well as domestic trade. Chaebols, followed by many petit traders, have undoubtedly contributed to the integration of urban and local markets into a national market.

The second group of Asian countries includes such large countries as Indonesia, Thailand, Malaysia and the Philippines. It is obvious that before independence, their economy was almost divided into autonomous local markets, enclaves dominated by foreign concerns such as plantations and urban markets as entrepots which were engaged in exporting mainly primary commodities produced in plantations and importing foreign products in exchange for the former. Such a market structure seems to have been almost intact for a long time after the most part of the colonial foreign assets were expropriated or taken over by government after independence. But, even if indigenous people took place of the management of companies or plantations, they had to retain a similar type of management. As a matter of fact, expropriated colonial assets acted no longer as a machinery whereby to produce steady profits to foreign countries. Instead, foreign exchanges earned by those concerns were controlled and allocated by the central government. Most of the valuable foreign exchanges, however, were allocated to national projects, and only a small portion of them to local regions, which had little effects on the integration of local markets.

In sum, the Asian NIEs have been successful in integrating their local markets into a national market by pursuing an open-door policy for a small economy like Singapore and Hong Kong or by implementing very selective policy measures to attract foreign investments like Taiwan and South Korea. On the other hand, LDCs with a large size of population and a high share of agriculture in GDP like Indonesia and the Philippines are still divided into separate autonomous local markets, even if the integrated market is expanding, particularly around big cities.[3]

III. Formation of a National Market

In Western countries, local markets were integrated into a national market through the development of division of labour on a national level whereby the conditions of comparative advantage of a variety of industries came to work beyond almost autonomous local markets. In the case of England, for instance, Lancashire and Yorkshire grew to be a centre of the cotton textile industry and West Midlands a centre of the metal industry in the 17th century. A new class of entrepreneurs appearing from the class of craftsmen began to take place of the monopolistic merchants with a guild status granted by the feudal state. At the same time, they developed transactions with a new class of traders who bypassed the established markets monopolized by a guild. Newly emerging traders provided credits to manufacturers, if necessary, which was conducive to creating a capital market at a regional and national level. Even a new group of exporters arose from among large-scale traders. They harvested profits by exporting manufactured products, not like mercantile traders who thought that their profits depended only on price differentials among separate markets. Thus, a national market in England was moulded and integrated during the Industrial Revolution by local entrepreneurs, not dominated by foreigners. They ploughed back their profits primarily in their domestic markets. It is noticeable, however, that in the process of market integration a new class of entrepreneurs took over an established class.

In Japan, during the Edo Era, there were already national distribution networks well developed for such commodities as rice and marine products, though Japan as a whole was divided into more than 60 feudal states where most village communities remained to be almost in a state of economic self-sufficiency. Shortly after the Meiji Restoration in 1868, the government relinquished most of the regulations on inter-regional economic activities, which spurred a substantial increase in the mobility of poeple and commodities. In parallel, the government launched modern industries and infrastructural works as national projects in order to enhance its economic and military power to protect Japan from the threat of being colonized by Western Powers. For this purpose, the Meiji government adopted two important policies: exploitation of the agricultural sector by imposing heavy land taxes on the one hand and a selective mobilization of foreign investments and employment of professionals on the other. Foreign investments, most of which were mobilized through the issuance of bonds in Western markets, were used to finance the national projects, but not allowed in the service sector including commerce in favour of local investments. Most part of the domestic and foreign resources mobilized were transferred to the modern sector in the form of subsidies to start up manufacturing industries, some of which were sold to the private sector for a low price at a later stage. In addition, the government fostered local enterpreneurs most of whom originated in the merchant class in the Edo Era. They laid groundworks to become *zaibatsu* (conglomerates) in affiliation with politics and bureaucracy, and contributed to the formation of a national market. The government transferred a huge amount of economic resources from agriculture to industry through land tax collections, and used *zaibatsu* as executors of national projects including the setup of strategic manufacturing industries such as textiles, iron & steel and shipbuilding. Moreover, a *zaibatsu,* as a conglomerate, established a network of banking business which functioned as an inner machinery of mobilizing financial resources among industrial sectors under its control. It is noteworthy that the banks belonging to *zaibatsu* virtually were not engaged in capital flight, while any foreign banks except for the foreign exchange banks under the state's strict control were not permitted to do business in Japan before the World War. All economic policies implemented by the government of the new regime in accordance with the strategy "*Shokusan-kogyo*" (Industrialization Strategy) were conducive to the formation of a national market in Japan.

In Asian LDCs, the government had to set up their own economic institution instead of the market mechanism that was responsible to mobilize economic resources with the aim of industrialization because its segmented national market was not expected to work so as to attain an optimum allocation of resources. In particular, large countries like Indonesia had to form a nation-wide administrative organization, in place of the colonial one, in charge of implementing an economic plan. Some governments adopted a centralized economic planning and some preferred a mixed economy based on the combination of economic planning and market forces. The former established a bureaucratic network and the latter pursued economic policies favourable to selected business groups. LDCs, even socialism-oriented countries, had to introduce investment and technology from abroad from the outset. Under such economic circumstances, these economic policies admittedly tended to induce distortions in the resource allocation in comparison with a planned or indicated pattern of allocation. One evidence is that a complicated web of government regulations worsened inefficiency in state administration and created rents attributed to the functions related to economic planning. Business groups protected from foreign competition have not played an anticipated role in a planned resource allocation of the national economy, and they have accumulated financial assets a substantial amount of which was remitted abroad. And they have been able to often remit their profits to foreign countries through their financial system, formal or informal, which could have been reinvested in the domestic market. One impediment to reinvestments in the domestic market is its segmentation which debars the financial market from any inter-regional mobilization of financial resources. Furthermore, a segmented financial market makes it impossible to distinguish between an interest and a profit rate proper, which is one of the causes of market distortion.

In the recent years, there are indications that local markets in some Asian LDCs have begun to be integrated rapidly due to the economic liberalization policies including the privatization of public enterprises and the gradual deregulation on the financial and money market. Their effects on the integration of their national market are very evident in view of their sustained high economic growth because the flows of commodities and financial resources have been accelerated by the liberalization policies. In addition, the recent liberalization policies have stimulated the inflow of foreign investments to local markets in Asian LDCs since more favourable open-door policies have been adopted. This tendency could be attributed partly to a changing situation of comparative advantage not only in Asia but among Asian and industrialized countries, which has been induced mainly by diversities in the rate of technological development and re-emerging divergences in the relative prices of the production factors, especially labour, among trading partners. It depends on the industrial structure formed by investment allocation including foreign investment in the past, whether it would generate an economic enclave or contribute to the integration of local markets.

In response to such stimulations as liberalization policies by government and changing international economic relations in the latter half of the 1980s, the domestic markets of Asian economies are in the rapid process of transformation, and their local markets come to be more exposed to the external economic changes.

One more factor in addition to foreign investment that exerts substantial influence on the formation of a national market is Asian conglomerates. They have diversified their investments in local markets mainly by setting up joint ventures with foreign companies, and some of them have grown to be exporters surviving fierce competition in the markets of industrialized countries. In the latter half of the 1980s, they started to launch investments abroad as multinationals.

Most of them started out their businesses as merchants who took the most advantage of price differentials for commodities they dealt in. Their founders usually did not separate management of their company from its family ownership. In general, however, managers of the following generations receive tertiary education in Western countries and tend to be freed from family bondage in the management of their company. In the process of the integration of a national market, therefore, Asian conglomerates seem to have been successful in transforming their style of company management to cope with rapidly changing economic conditions. Whether a new class of business people will replace their predecessors in the future in Asia as happened in the industrialized countries, the new Asian business class will play a decisive role in the integration of their national market. Some Asian conglomerates have diversified into the trade business generally in coordination with established foreign trading houses thanks to the government's tariff and quota system. In order for them to plough back their earnings especially in terms of foreign exchange, an inter-regional pattern of division of labour has to evolve among local markets so as to attract their investments. Furthermore, the government may have to impose strict regulations on foreign exchange to deter capital flight, as in Taiwan and South Korea. Otherwise, they may remit their profits to foreign countries, which may result in forming economic enclaves similar to those in the colonial times. The general observation shows in general that they are expected to accelerate economic interactions among local markets in the domestic market, which may be conducive to the integration of a national market because they serve as intermediaries to transfer investment resources between urban and rural markets.

A similar process of market integration can be observed in local markets at the village level. A changeover in the class structure of farmers and small traders has been in progress, which seems to exert favourable effects on the amalgamation of neighbouring local markets. The most conspicuous cause for such transformation of the village economy is the "Green Revolution," which has still been under way since the 1960s in Asia. The Green Revolution is concerned with a new technology in agriculture that introduces high-yielding varieties (HYVs) of rice and wheat. This new technology has undoubtedly contributed to an increase in land productivity, but at the same time brought about wide-ranging effects not only on the village economy but also on the village class structure. HYVs require such inputs as seeds and chemical fertilizers that are supplied from outside the village economy, which increases and prompts economic transactions with other local markets. Furthermore, a new class of enterprising farmers is willing to introduce the new technology and accumulate assets including land. Some of them invest their earnings in commerce selling and buying rice and other farm products to towns. Such an emerging class come to grip the village politics in place of the traditional communal leaders. On the other hand, however, the Green Revolution has produced landless agricultural labourers many of whom have left their villages for urban areas only to become under-employed.

All these changes in economic transaction in the village market are apt to transform or even destroy their long-standing traditional communal customs. The process of such a transformation of various phases of the village community seems to be very rapid in comparison with similar ones in the industrialized countries in the pre-capitalistic period. While a national market was formed almost in accordance with the self-evolution of division of labour among communities in an industrialized country, that of an LDC seems to be to a large extent progressed by external forces, such as government policies and foreign investment, even after independence. In other words, while the price mechanism permeated local markets simultaneously in the latter case, it does not function likewise at the community level in the former case in the sense that prices of commodities including even those of farm products are "parameters" given from outside the community market. As a matter of fact, the "Green Revolution" has been conducive to expanding local as well as urban markets, but it is debatable whether the "Green Revolution" has served to integrate them into a national market.

In the process of market integration involving the emergence of a new class of entrepreneurs replacing the established class of vested interests in local markets in Asian LDCs, their domestic market has been gradually restructured to be adapted to the market mechanism.

IV. Concluding Remarks

The Industrial Revolution in the industrialized countries was a pre-requisite for the integration of their capitalistic national market. In this economic process, three important conditions that contributed to the accomplishment of the capitalist market can be detected.

1. The extension of division of labour from the community to the national level.

The economic structure of any autonomous economy was determined according to the pattern of division of labour within the community. Accordingly as the principle of division of labour worked among local markets, regional markets developed a certain group of industries embodying their own comparative advantage until they were integrated into a national market. This is a self-evolving process of market integration in response to changes in external trade and in accordance with changing comparative advantage pertaining to an expanding market.

2. The diffusion of the price mechanism.

The exchange of commodity for commodity was dominant in an autonomous communal market. Accordingly as the scope of division of labour expanded and its pattern became complicated, pecuniary transactions penetrated local markets which necessitated the use of a price for any commodity placed on the market for exchange. One of the most important effects of the diffusion of the price mechanism was that the markets for the factors of production developed which enabled capitalists to define clearly the concept of profit and compare alternative opportunities for investment.

3. The replacement of one class by a new class of economic entities who play a central role to make the new economic system work.

Over the mercantile times, traders who belonged to a monopolistic and exclusive association like a guild in Europe or "*za*" in Japan which was granted by the feudal administration were mainly interested in price differentials between regions. The Industrial Revolution produced a new class of capitalists who intended to increase profits by finding the best combination of production factors for this purpose. They needed a class of traders who dealt in their products, and those capitalistic traders defeated a monopoly of mercantilistic merchants in the end. It must be noticed, however, that the emergence of a new class of capitalists was accompanied by another new class of labourers who had no other alternative of supporting themselves except being employed for their subsistence by the former.

One can look into the economic conditions of Asian LDCs for the sake of comparison from the above three viewpoints.

In the present Asia, the economic structures of Singapore and Hong Kong whose national markets are totally uniform are assumed to be a part of the economic structures of the industrialized countries, though they have their own currency units and economic policy measures. Even the economic structures of other Asian LDCs seem to be dominated by the division of labour between them and industrialized countries rather than one in their domestic markets. It is because their industrialization policy has depended to a great extent on foreign investments and technology, which also have been an important determinant for forming their trade structures. In the process of the integration of local markets along with a changing pattern of the domestic and the international division of labour for each national market, the industrial and trade structures may undergo further changes, leading ultimately to the integration of a national market in the long term. But if the pattern of the international division of labour would overwhelm that of the domestic division of labour and if local markets would remain to be price-takers, there would be high possibilities that the economic disparities would be aggravated between them and the metropolitan market.

In the local markets of Asian LDCs, the markets for commodities except for ones supplied from urban markets as well as the markets for land and capital are not well organized. In particular, the factor markets are still now regulated by the traditional communal customs and laws, even if they are affected by the rules pertaining to the market mechanism such as private property rights, written contract, and payment of rentals and wages in money instead of in kind. Most farmers are not yet familiar with distinction between profits and input costs including labour costs. Under these circumstances, the price mechanism does not function properly in order for a profit rate to converge in a local market and among local markets. Only a small number of large-scale landowners are eager to be engaged in off-farm business activities such as rice milling whereby they can collect economic information from outside their community and get used to economic calculations by making the most use of business opportunities which are often engendered by information gap between their community and the external sector.

Within a community which is exposed to the market mechanism from outside, its traditional customs and laws of the clan system have been prone to disentanglement, which has been precipitated by the enforcement of laws and decrees by the central government that intends to adopt the modern concept of law appropriate to the capitalistic economic system. In parallel, a new class of farmers who can familiarize themselves with the new technology has been taking place of the village establishment. In addition, government officials and military personnel who are responsible to implement development policies and carry out regional projects under the auspices of higher-level governments often gain some sort of economic rents in local or regional markets. A rising class of economic leaders at the village tends to be affiliated with political factors, which may serve to deepen interdependence with neighbouring community markets and perhaps the metropolitan market. At the same time, it must be noticed that the class of small landowners and landless farm labourers has turned into a tremendous number of landless labourers who lose any means of living on subsistence at their village.

At the present stage of economic development of Asian LDCs, we could say that their national markets will be integrated in the end. But we must ask whether it will take place without any serious disturbances in view of the historical facts in the industrialized countries that the internal evolution of the market mechanism abounds with a number of miseries such as high unemployment rates, child labour, long working hours and bloody conflicts between capital and labour. Nobody is convinced that history repeats itself, but we can discern high possibilities that Asian LDCs will be confronted with similar disturbances and miseries in the course of economic development. With respect to the above three factors that are relevant to the market integration, we could take lessons from the economic histories of the industrialized countries in consideration of the present stage of economic development of Asian LDCs.

(1) Policy priority should be placed more on the domestic division of labour than on the international one, with the aim of developing an integration of local markets. Policy measures for this purpose must be framed to promote economic liberalization in the domestic economy. In this context, the open-door policy should be relegated to the secondary phase of development strategy that is focused on domestic economic liberalization, except for transfer of technology, employment of expatriate professionals, and financial borrowings including ODA.

(2) The price mechanism is expected to be diffused in the process of the market intergation as a collorary of the development strategy for domestic economic liberalization. But this process may encompass widening income disparities giving rise to miseries, as happened in the industrialized countries and is happening in Asian LDCs as well. It is shown that they occurred along with changes in the economic rules or ethics from the cummunal to the capitalisic ones. The first question is whether such a transitional phenomenon would be avoidable in the process of economic development towards the price mechanism in a national market. The second is whether they could be compensated for by such government policies as income transfers or other economic policies, provided that they are unavoidable. The fact so far is that any government of LDCs has hardly been successful in this respect. This will be a still challenging issue of development strategy into the next century. One possibility is to lower their economic growth rates in order that the price mechanism may become acceptable as the economic rules to any economic entities in a local market because it requires them to alter their perceptions or ethics to economic transactions.

The economic histories of the industrialized countries remind us that any economic "revolution" was preceded by or took place together with a changeover in the political system and ideology, such as the Meiji Restoration in Japan, the Glorious Revolution in England, and the French Revolution all of which admittedly made a great contribution to the establishment of the national identity that constituted the basis for a common economic ethics in a national market which is almost equivalent to a nation state. At present many Asian countries are still now confronted with a variety of difficulties and conflicts on the way toward establishing themselves as a nation state.

NOTES

1. There are a few contributions to the subject on the relationships between economic development and market structure. Two important ones are mentioned here: Shigeru Ishikawa, *Kaihatsu-keizaigaku no Kihon Mondai* [Fundamental Issues in Development Economics], Tokyo, Iwanami, 1990. Professor Ishikawa identifies three factors that characterize "an undeveloped market"; an underdeveloped division of labour, an in-

sufficient supply of infrastructure, and a traditional exchange system. These three factors are ambiguous, however, to define an "undeveloped" market. One can observe that a traditional market with such three factors might be efficient in its resource allocation in terms of production maximization (e.g. rice production), even if a national market composed of segmented local markets could not attain an optimum allocation of its economic resources; H. Myint, "Organizational Dualism and Economic Development, "*Asian Development Review,* Vol. 3, No. 1, 1985. Professor Myint analyses an underdeveloped market in terms of functional relationships between the modern and the traditional sectors, and distinguishes them from the imperfections of a fully developed market system.

2. Descriptions on the economic histories of industrialized countries derive from the following publications: *Seiyo Keizai-shi Koza* [Lectures on the Economic History of Western Europe], 4 vols, ed. Hisao Otsuka, et al., Iwanami, 1975; *Nihon Rekishi Kōza* [Lectures on the Japanese History], 26 vols, Iwanami, 1980 – 81; *Nihon Keizai-shi* [The Economic History of Japan], Kazuo Yamaguchi, Chikuma Shobo, 1976.
3. In this paper, many references are made to IDE publications and reports concerning economic conditions of Asian countries, but they are not mentioned in the paper.