

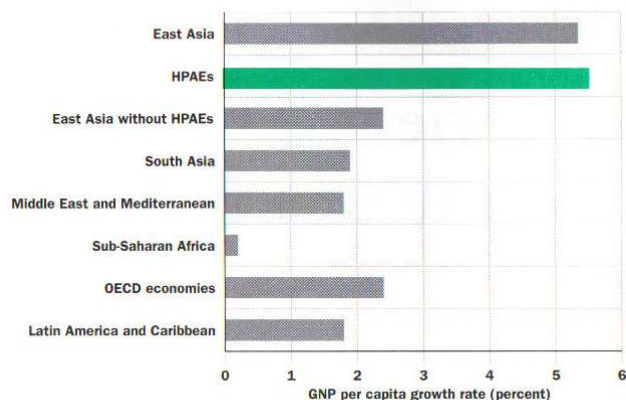
The East Asian Miracle

Main characteristics of the “Asian Miracle”

- Rapid economic growth (GDP, per capita GDP)
- Persistence of rapid economic growth – an unprecedented long period of economic expansion (> 25 years)
- Achievement of economic parity
- Political stability – “benevolent dictatorship”
- Export-oriented industrial policy, i.e., abandonment of ISI
- (stable macroeconomic management)

High growth in East Asia

Figure 1 Average Growth of GNP per Capita, 1965–90

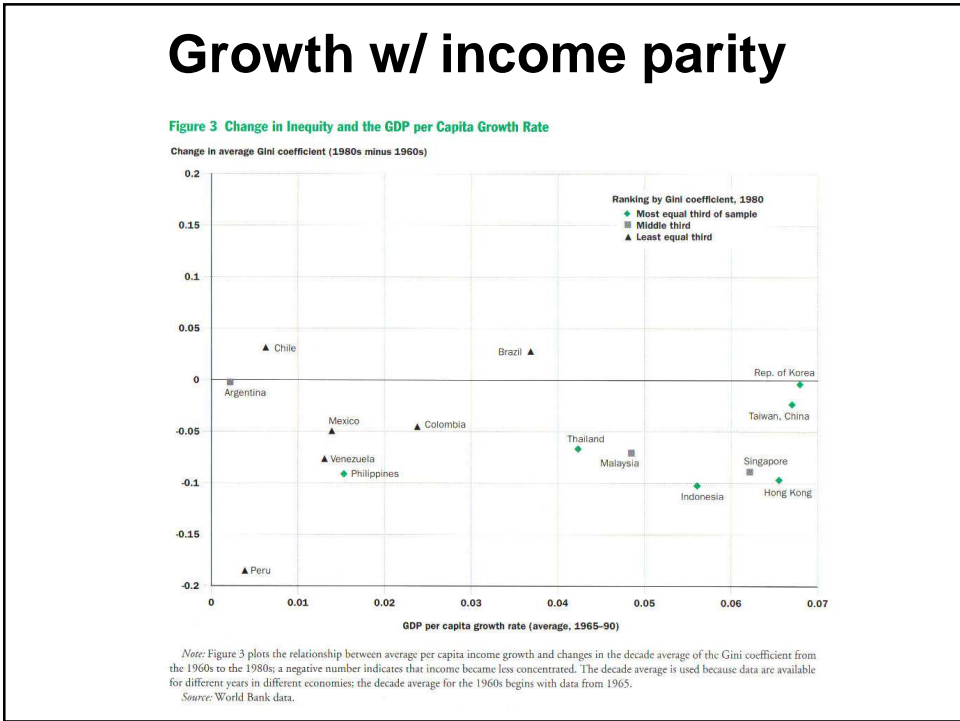
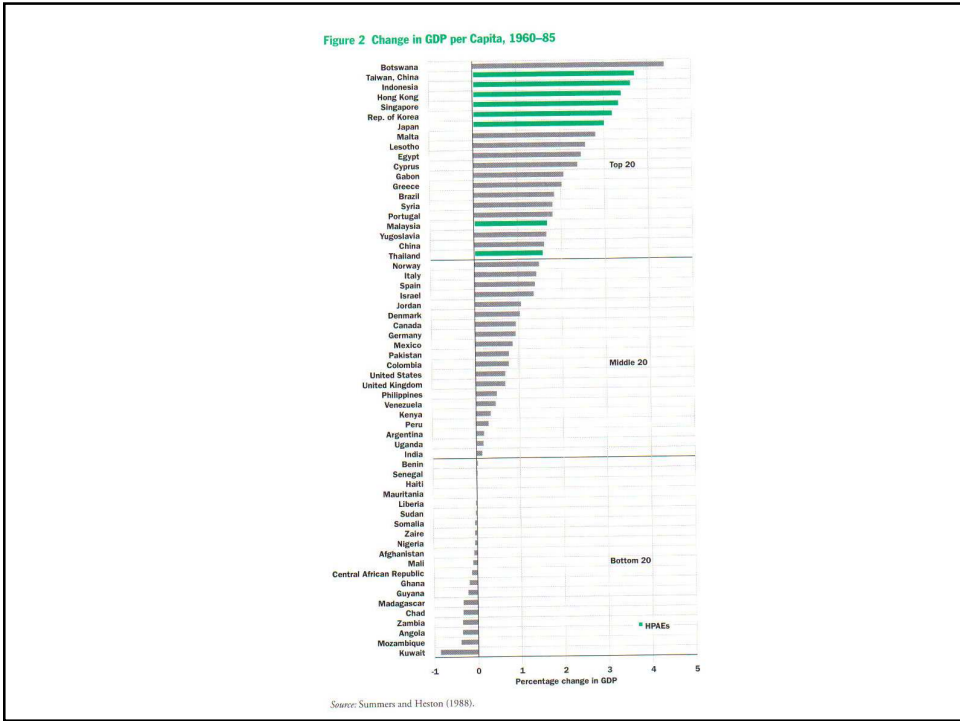


Source: World Bank (1992d).

HPAEs=High-performing Asian Economies: Japan, HK, Taiwan, Korea, Indonesia, Malaysia, and Thailand

The East Asian Miracle

	Average real GDP growth		GDP (\$bil. in 1997)	per capita GDP (1995\$ as of 1997)
	1980-90	1991-97		
Japan	3.8	2.4	4,197.47	34,678.91
Hong Kong	6.9	5.0	171.4	26,361.32
Singapore	7.4	8.3	96.32	25,776.54
Taiwan	8.2	6.4	283.39	13,134.52
Korea	8.1	7.4	442.54	9,639.54
Malaysia	5.8	8.7	98.47	4,537.73
Thailand	7.3	7.4	153.93	2,539.99
Philippines	2.0	3.1	83.21	1,131.65
Indonesia	5.8	6.9	214.62	1,073.81
China	9.8	10.3	901.95	679.61



The WB's “The East Asian Miracle”

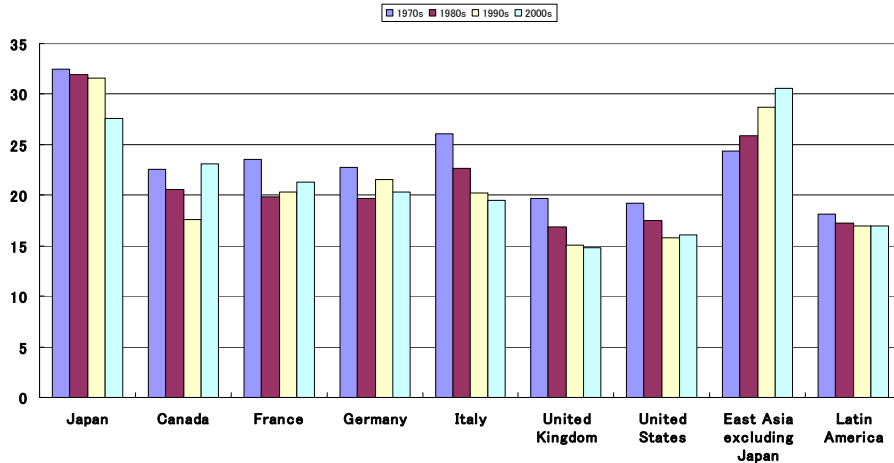
Asian countries (Japan, NIES, ASEAN)

- Well-educated labor force
- Stable financial markets/environment (=high saving rates)
- Stable macroeconomic management (low national debt, low inflation)
- Higher degree of trade openness
- High level of bureaucratic quality / stable politics

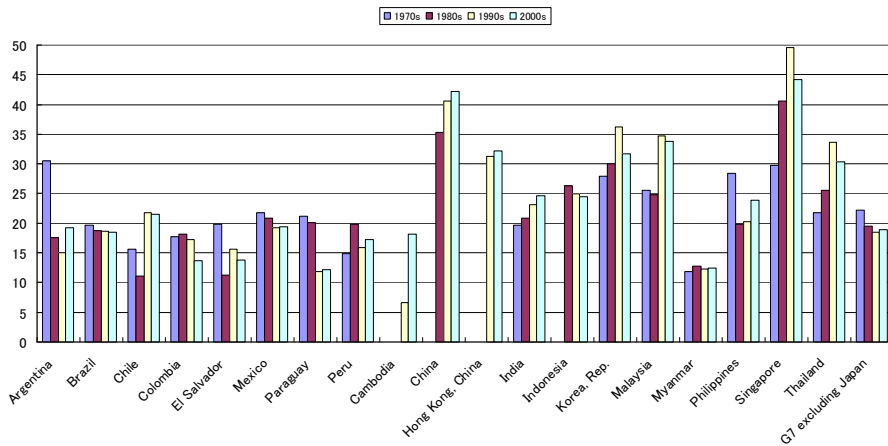
What we have learned is ...

- Development theory says
 - Saving rate
 - Technology (TFP)
 - Improvement in the productivity level of the primary industry
- Japanese experience tells us
 - Saving rate, good financial infrastructure
 - Technological transfer
 - Export-oriented industrial policy
 - Political stability
 - Strong government initiatives(??)

Comparison of saving rates as % of GDP



Comparison of saving rates as % of GDP



What we have learned is ...

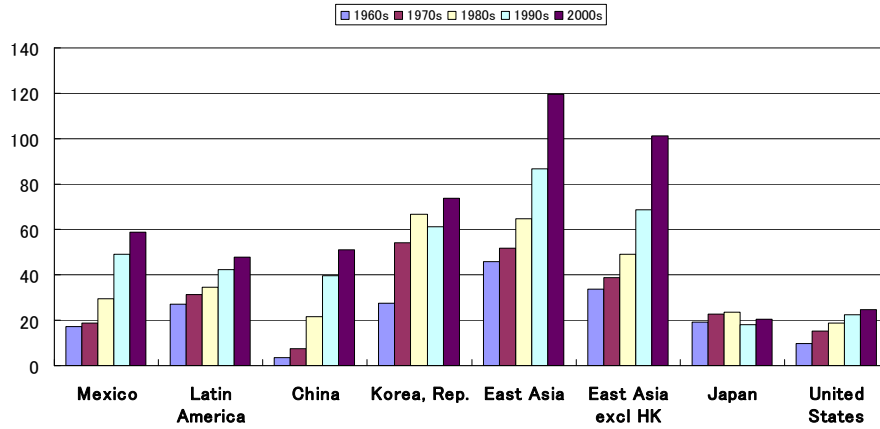
- Development theory says
 - Saving rate
 - **Technology (TFP)**
 - Improvement in the productivity level of the primary industry
- Japanese experience tells us
 - Saving rate, good financial infrastructure
 - Technological transfer
 - Export-oriented industrial policy
 - Political stability
 - Strong government initiatives(??)

What we have learned is ...

- Development theory says
 - Saving rate
 - Technology (TFP)
 - **Improvement in the productivity level of the primary industry**
- Japanese experience tells us
 - Saving rate, good financial infrastructure
 - Technological transfer
 - Export-oriented industrial policy
 - Political stability
 - Strong government initiatives(??)

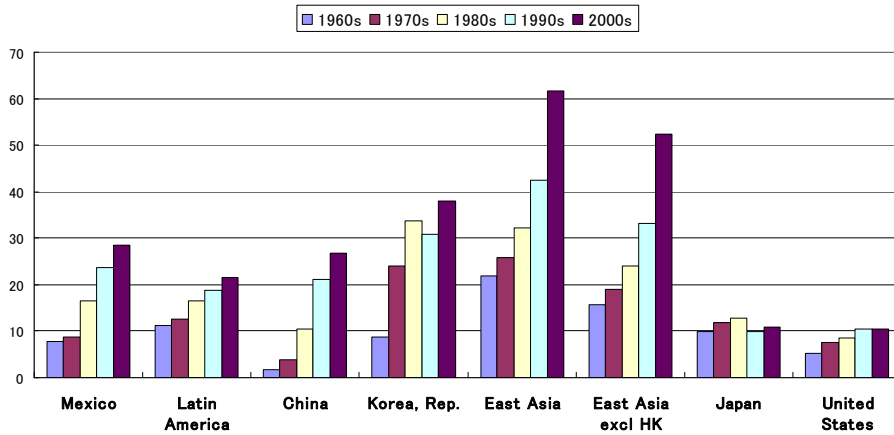
Open to international trade

Trade (% of GDP)

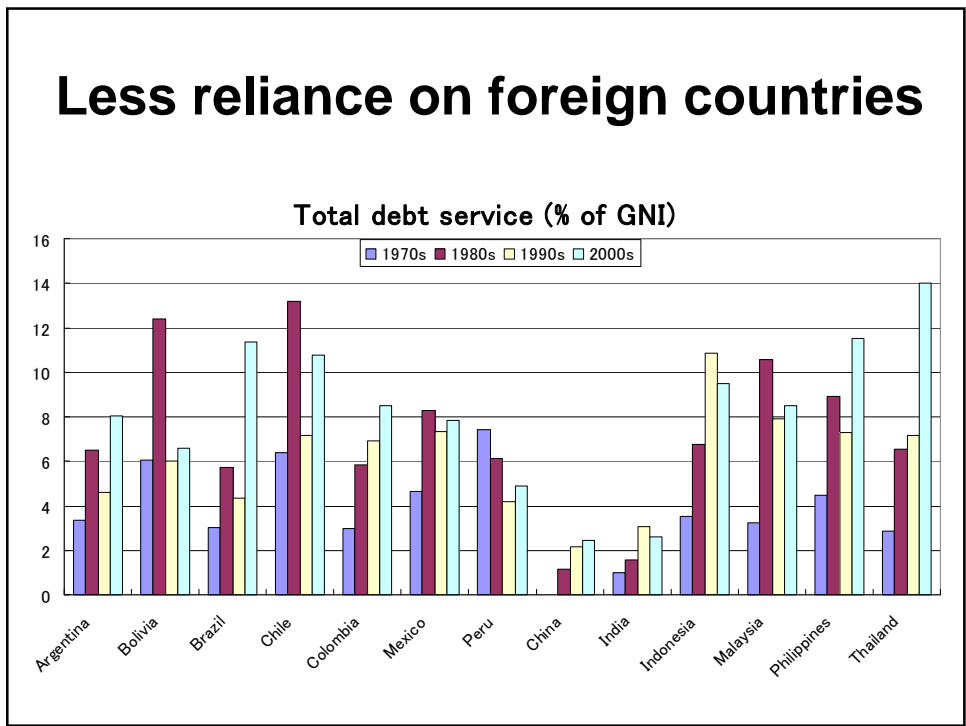


Export-led?

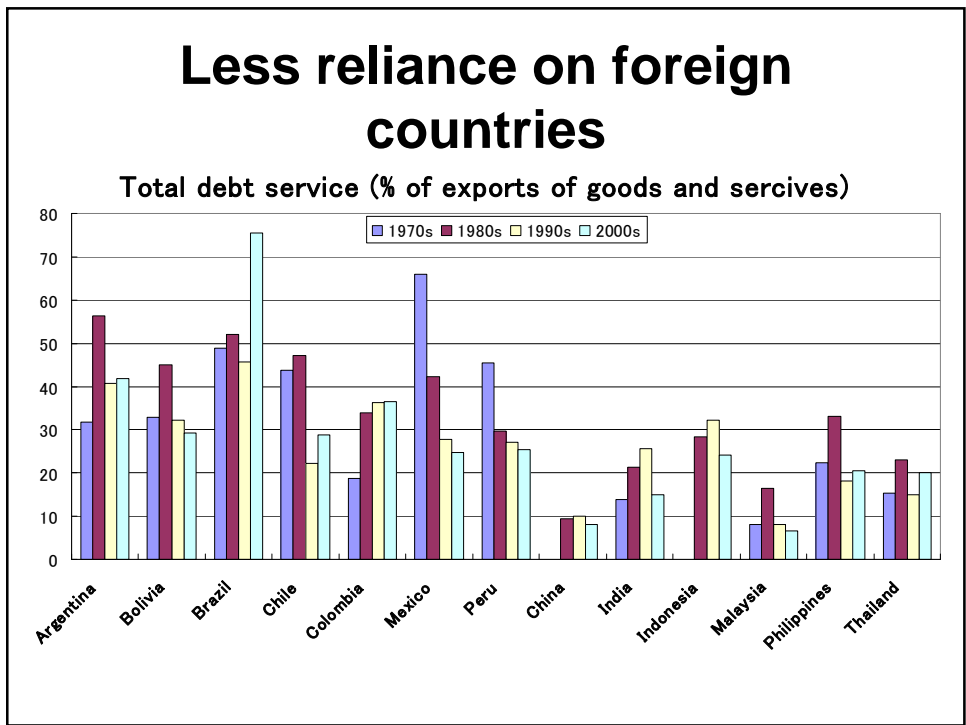
Export as a ratio to GDP

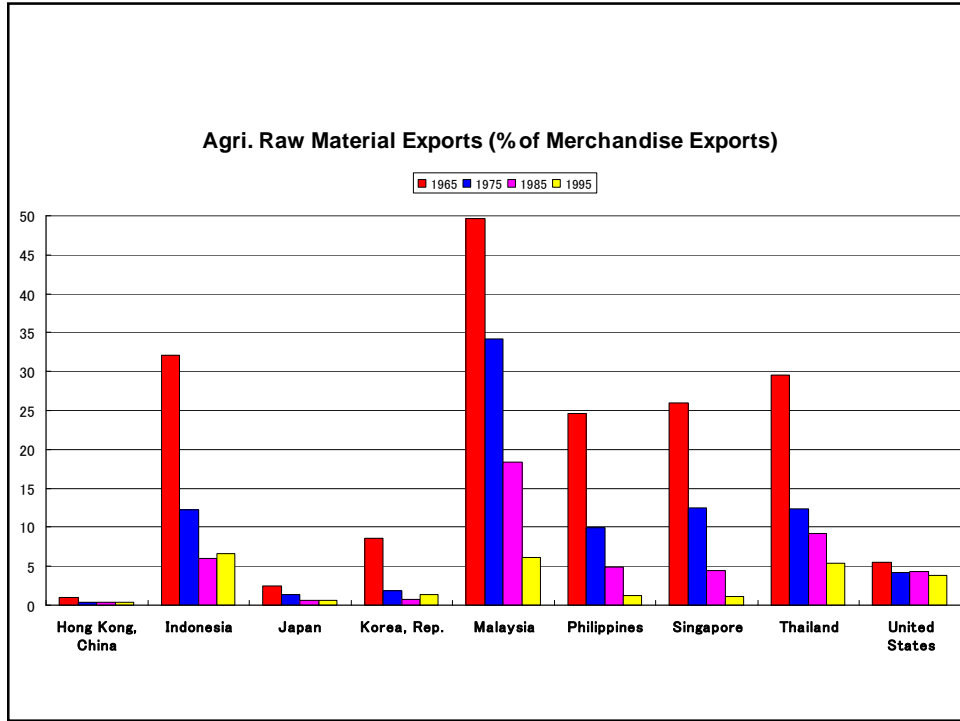


Less reliance on foreign countries



Less reliance on foreign countries





	1950s	1960s	1970s	1980s	1990s
Japan	Textile, Light goods Export-orientation	Heavy Industries			
Korea	ISI	Textile, sugar Export-orientation	Heavy Industries		
Hong Kong	Textile, Plastic	Electronics Export-orientation		Finance	
Taiwan	ISI	Light goods, agri., processed food Export-orientation	Heavy industries		
Singapore		' 65 Indep. Export-orient. thru FDI	high-value-added		
Thailand	agri. ISI		Stagnation Exp.-orientation	Textile FDI prom.	
Malaysia	agri. ISI		Stagnation Export Or.	Machinery FDI prom.	
Indonesia	agri. ISI		Oil	Stagnation Exp/FDI prom.	
Philippines				Elect. Crisis FDI prom.	

The Asia Model?

- It appears that those countries which transformed from ISI-oriented industrial structure (or policy) to export-oriented industrial structure (or policy) at an earlier stage achieved higher income growth.
- The “Flying Geese” Model – akin to “product cycle theory”
- “Infant industry” argument

The Asia Model?

- Those countries which are not well-endowed with natural resources appear to have started export-oriented industrial policy.
- Role of U.S. aid
- Why did ISI-oriented policy not work effectively?

ISI turned out to be ineffective

- ISI tends to focus on consumer goods → still requires intermediate goods, raw materials, and capital goods to produce.
- The market for ISI goods is not that big when the domestic income level is not high.
- ISI tends to focus on downstream industries, so it creates less ripple effects on other industries.

ISI turned out to be ineffective

- ISI involves distorted allocation of resources
- “rent seeking” (but this is also applicable to exp.-oriented IP)
- Countries w/ weak exports are subject to \$ shortage (i.e., balance of payments crisis)

Why didn't some geese leave ISI?

- NIES countries left ISI-oriented IP at an early stage, but ASEAN countries kept clinging to ISI. Why?
- ASEAN countries are rich in natural resources
 - Indonesia – oil, natural gas
 - Malaysia – rubber, tin
 - Thailand – rice and other agri. products
- Exports of natural resources made it easier for these countries to have access to foreign currency. → no urgent necessity to create export industries

Those which left ISI

- Implemented Japan-like industrial policy
Esp. Korea (and Taiwan)
- These countries were strategically important countries for the U.S., but could not continue receiving aid from the U.S.
- Growth in exports enabled these nations to have access to foreign technology and raw materials
- These countries climbed up the ladders of industrial development while protecting inefficient sectors from international competition

Those which clung to ISI

- Experienced economic stagnation in the early 1980s
- Started to recognize the value of export-led growth
- Tried to follow the rear of the flying geese
- Some decided to take a short-cut = financial liberalization (creation of off-shore markets), FDI

FDI and Financial Liberalization

- Trend of financial liberalization among IDCs
- The interest rate differentials between the US or Japan and developing countries became bigger
- US – streamlining its production process to compete with Japanese firms
- Japan – after the Plaza Accord, the yen started appreciating, making its labor force more expensive
 - The burst of the bubble required firms to downsize themselves
- Europe – German reunification, currency crises in Italy and UK, banking crises in Sweden and Norway → they had to maintain a low level of interest rates → Asian countries appear to be attractive places to invest

Financial Liberalization

- To attract funds from the ROW, Asian countries started liberalizing financial markets
- As long as they made it easier for foreign to invest, Asian countries were able to attract investors because their macroeconomic conditions were relatively benign and some of them were already successful in export sectors (i.e., Korea and Taiwan)