

## The East Asian Miracle

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### 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)

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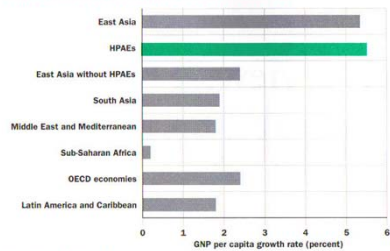
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### High growth in East Asia

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

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## 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

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## 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(??)

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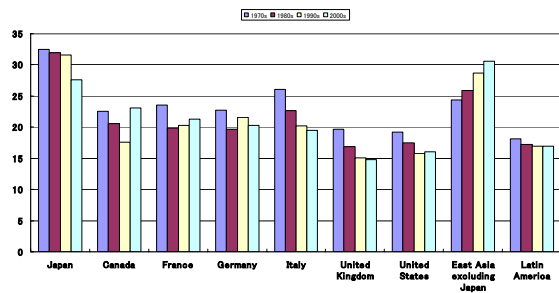
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## Comparison of saving rates as % of GDP




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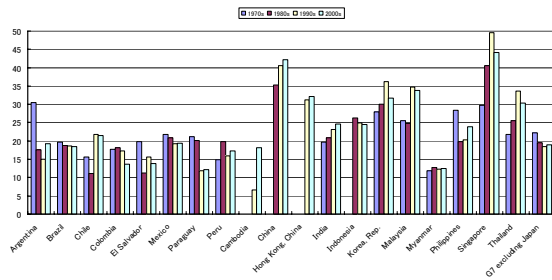
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### But saving isn't everything

- Needs good financial intermediation
- High saving rates can mean a reflection of
  - Poor social security system
  - Poor financial markets
  - Precautionary saving motives
- Laffer curve in saving behavior w/r/t demography
- Endogeneity issue with high economic growth – consumption smoothing

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### **Total Factor Productivity (TFP)**

$$Y = AK^\alpha L^{1-\alpha}$$

$$\ln Y = \ln A + \alpha \ln K + (1-\alpha) \ln L$$

$$\ln \hat{A} = \ln \hat{Y} - \hat{\alpha} \ln \hat{K} - (1-\hat{\alpha}) \ln \hat{L}$$

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### **Was East Asia's rapid growth driven by TFP growth?**

- Generally speaking, "not really."
- More evidence that factor accumulation accounts more for GDP per capita growth than TFP growth. esp. for the pre-1990s period
- Young (1992) and Krugman (1994) – no TFP growth in East Asia b/w 60s and 80s
- Kim and Lau (1994) – TFP growth accounts for 1/3 of real GDP growth b/w 1960 and 1990 for NIEs, c.f. 80% for U.S. b/w 1948 and 1990
- Sarel (1996) NIEs TFP growth is comparable with U.S. for 1975-90

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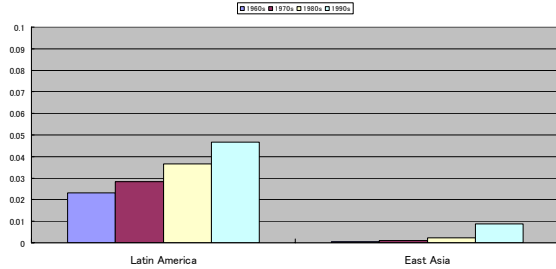
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## Has agri. productivity increased?

Agricultural machinery, tractors per agricultural worker




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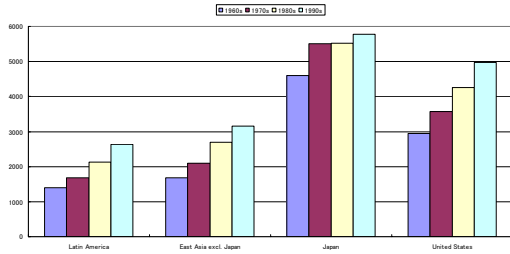
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## Has agri. productivity increased?

Cereal yield (kg per hectare)




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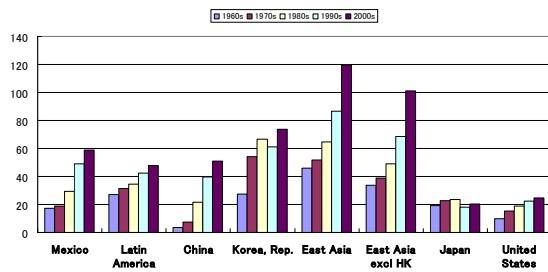
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## Open to international trade

Trade (% of GDP)




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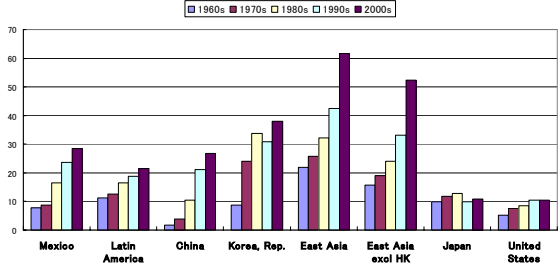
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## Export-led?

Export as a ratio to GDP




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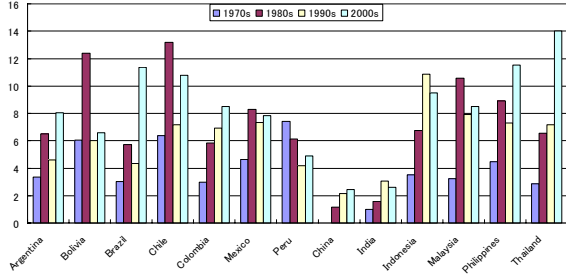
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## Less reliance on foreign countries

Total debt service (% of GNI)




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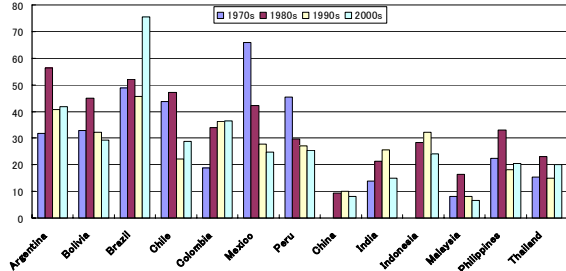
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## Less reliance on foreign countries

Total debt service (% of exports of goods and services)




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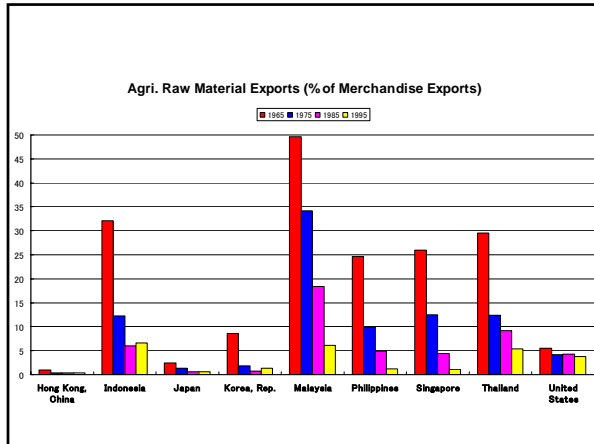
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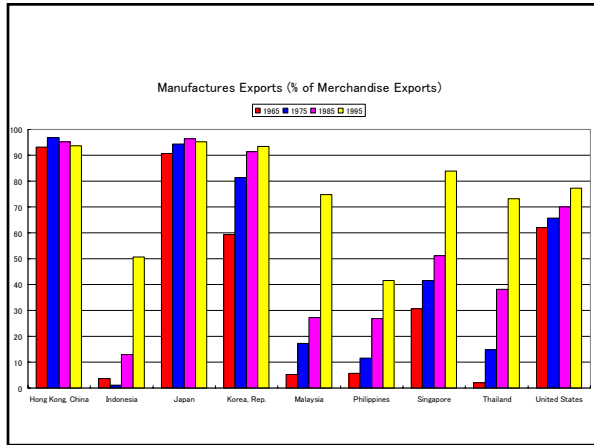
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	1950s	1960s	1970s	1980s	1990s
Japan	Textile, Light goods <b>Export-orientation</b>	Heavy Industries			
Korea	<b>ISI</b>	Textile, sugar <b>Export-orientation</b>	Heavy Industries		
Hong Kong	Textile, Plastic	Electronics <b>Export-orientation</b>		Finance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

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### **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

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### **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?

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### **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.

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### 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)

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### 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

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### 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

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### 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

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### 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

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### 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)

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