

Topic 1

East Asian Growth: Key facts and question

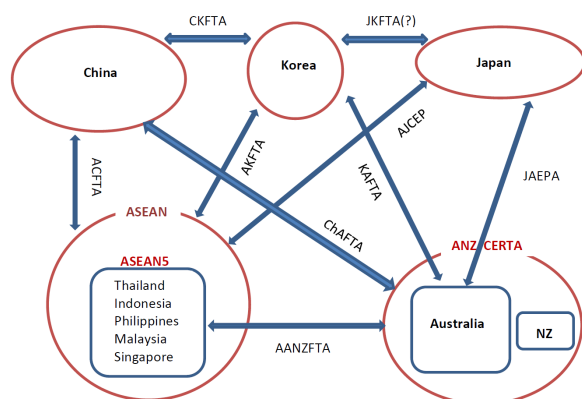
- Asian financial crisis in 1997-98 led to an abrupt halt in the growth miracle, exposing structural weaknesses.
- China's continued strong growth changed the global pattern of trade and investment
- Will China continue to be the world's economic centre of gravity?
- Can Japan resuscitate its economic growth?
- Would South Korea become the next Japan?
- Can South East Asia (except Singapore) catch up with the North?

Regional Comprehensive Economic Partnership

- 10 member of ASEAN
- China, Korea and Japan, Australia, NZ and India
- 46% of world population
- 25% of world GDP

Free Trade Agreements (FTAs)

Bilateral FTAs or Multilateral FTAs?



Trans Pacific Partnership (TPP) – dead becoz of Trump?

Key East Asian Economies

- China, Japan, South Korea, Singapore, Malaysia and Indonesia, Vietnam
- These countries have:
 - Common and country specific features
 - Shown convergence in growth

National leaders for postwar growth

Japan: Shigeru Yoshida (1946 – 1954)

- Led the economic restructure after WWII
- Built the foundation for Japanese MNCs

Korea: Park Chung-hee (1961 – 1979)

- **'Development dictatorship'**
- Led the 'growth miracle'; rapid industrialisation

China: Deng Xiaoping (1978 – 1992)

"It doesn't matter if a cat is black or white, so long as it catches mice." (黄猫黑猫)

- Architect of modern Chinese economy
- Introduced market-based economy

Singapore: Lee Kuan Yew (1959 – 1990)

- **Meritocracy** led economic model
- Government owned enterprises
- Maximised foreign capital

Malaysia: Mahathir bin Mohamad (1981 – 2003)

- **"Look East"** policies
- Manufacturing led economy

What Explains the Growth 'Miracle'?

All inherited a destroyed economy and/or had a colonial history.

- Japan: lost in WWII in 1945
- Korea: colonial ruling by Japan (1910-45) and Korean civil war (1950-53).
- China: Japanese occupation and Chinese civil war (1927-50).
- Malaysia, Singapore and Indonesia: all emerged from colonial rulings of Britain and Netherlands.
- Vietnam: colonial ruling of France and Vietnam war

'Flying geese' (FG) hypothesis

- Proposed by Akamatsu (1962) as a model of dynamic comparative advantage
- Flying geese pattern of economic developments (US → Japan → NIEs (Korea, Taiwan, Singapore and Hong King) → ASEAN 4 →)
- Aimed to explain the catching-up process of industrialization in latecomer economies
- Pro-trade oriented foreign direct investment (FDI) mechanism

Rostow's (1960) Stages of economic growth hypothesis

1. Traditional society
2. Pre-conditions for take-off
3. Take-off
4. Drive to maturity
5. Age of high mass production and consumption

Problems:

- Based on European economies
- Not all countries start with the same endowment and follow the same process

Dependency theory

- Centre – periphery view of world growth (neo Marxist view)
- Resources flow from a "periphery" of poor and underdeveloped states to a "core" of wealthy states, enriching the latter at the expense of the former.

Import substitution

- Based on infant industry argument: the industry in its early stages experiences relative difficulty in competing with established competitors abroad.
- A trade and economic policy which advocates replacing foreign **imports**/ reducing its foreign dependency with domestic production

Big push theory - (Soviet style command economy)

Asian Model of economic growth - Michael Schuman

Growth Miracle - Unique characteristics

- Market based approach but not quite American style free markets (Laissez faire) approach
- Diverse groups involved: politicians, bureaucrats, technocrats, capitalists, entrepreneurs, foreign firms rather than Soviet style central planning
- Gov't often picked the 'winners'
- Outward or export led development (opposed to Import substitution)

Growth and Institutions

Legal Institutions

- Are laws reliable and credible?
- Do laws protect innovators?
- Is the judicial system efficient?

- Are good incentives encouraged?
- Market Institutions
- Capitalistic or central planning?
 - Encourage monopoly or competition?
 - Good governance and supervision matter!

The Importance of Institutions

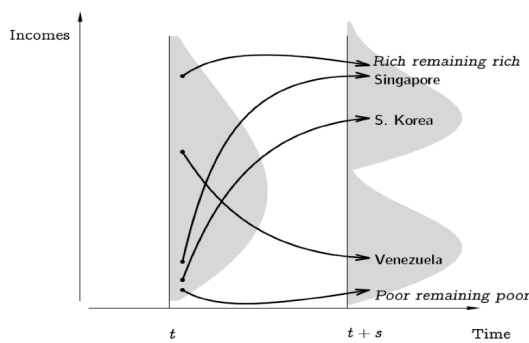
- India has been less successful than US - changes in the legal and regulatory system within a country often induce negative as well as positive changes in technology

What explains the Growth Miracle

- Asian culture
- Utilised the global conditions
- Fixed exchange rate system provided stability and suited export oriented growth.
- Technological progress and population growth

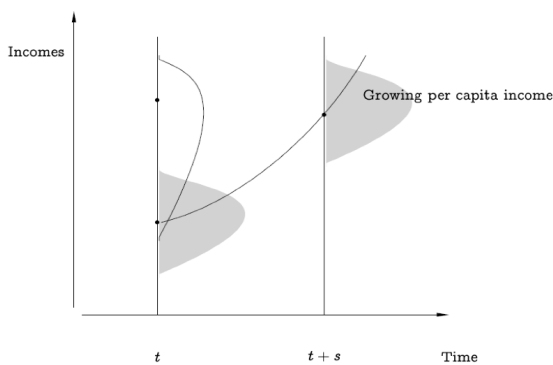
Growth Miracle and Growth Disaster

East Asia shifted the income distribution upward while some other parts of the world moved downward!



Growth and Income Distribution

- Growth can shift the entire distribution of income in a society.



Importance of Growth Rate

How long does it take for a variable to grow

$$X_{t+n} = X_t \exp^{g \cdot n}$$

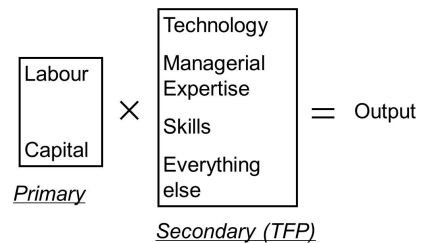
n = number of years

- ⇒ $X_{t+n} = X_t e^{(g \cdot n)}$
- ⇒ $\log X_{t+n} = \log X_t + g \cdot n$
- ⇒ $\log X_{t+n} - \log X_t = g \cdot n$

The rule of 70: If a variable grows continuously at **g%** a year, then it will take approximately $70/g$ years for the variable to double.

Theory of Economic Growth

Determinants



For East Asia

- Primary: Saving (Investment), Labour.
- Secondary: Education (skilled labour, human capital), entrepreneurial skills.
- $Y=AF(K,N)$ where $A = TFP$
- **In the long run**, productivity (technological progress or total factor productivity (TFP) matters! Determines the living standard
- **The role of government policy:** Increase levels of education, human capital, better tech through R&D and education.

Total factor productivity (TFP)

- Means secondary factors of production.
- These are factors other than the amounts of K & L affect the amount of output that is produced
- TFP growth was strongest in the post-war period but mostly in the developed world. East Asian growth (excluding Japan) took off in the 1960s and was largely due to addition of labour and capital inputs.