

Fulbright
University
Việt Nam

Development Policy 2020

**Session (5): State-led Economic Growth
and East Asian Miracle**

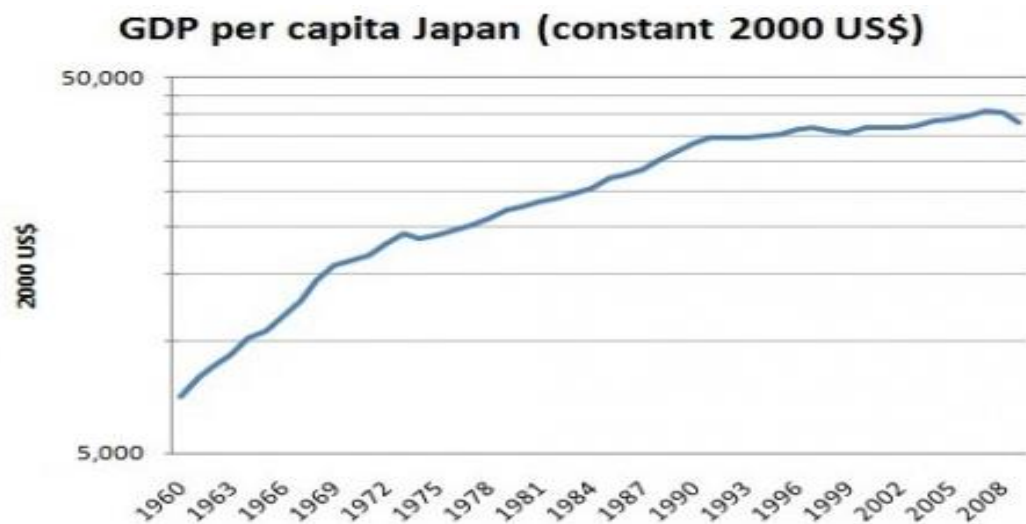
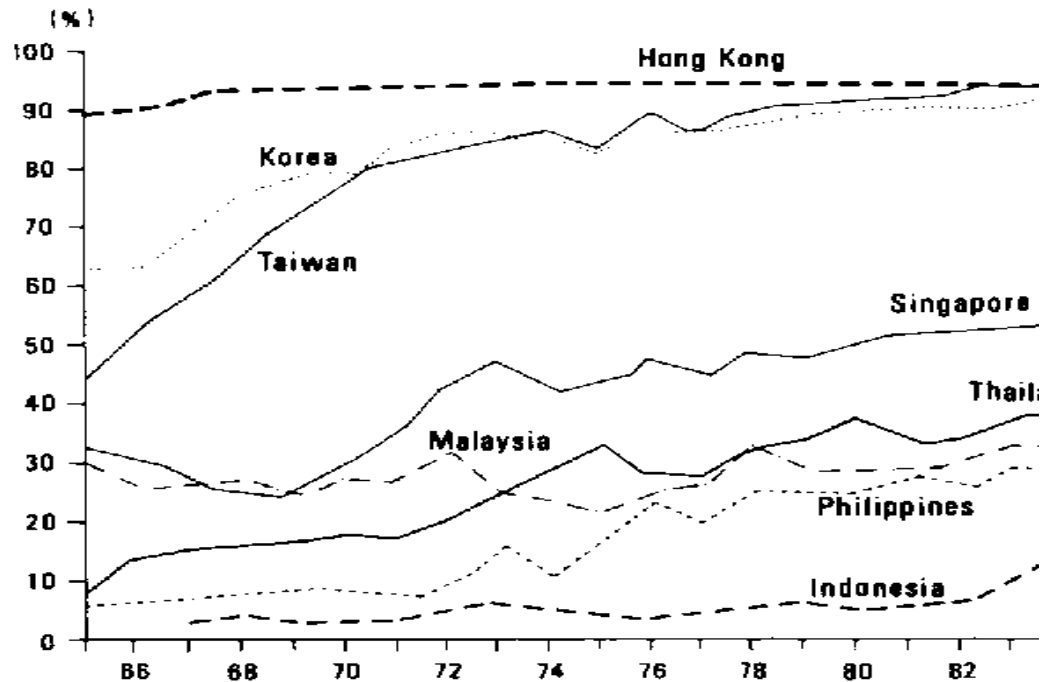
Class Schedule

- The rise of non-Western, prosperous economy: Japan and East Asian Tigers

- How could Japan and Four Dragons (Tigers) modernize? Was East Asian Miracle really miraculous?

- Were there some favorable conditions?

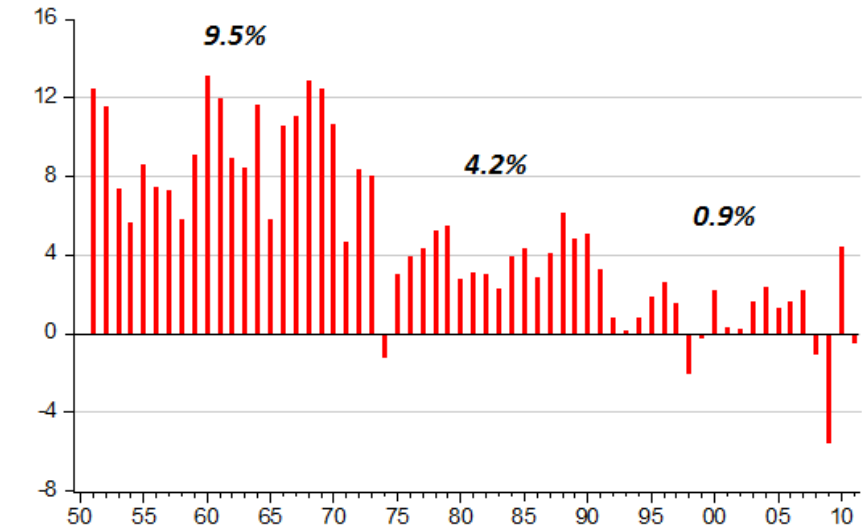
- What is the term, 'developmental state'?



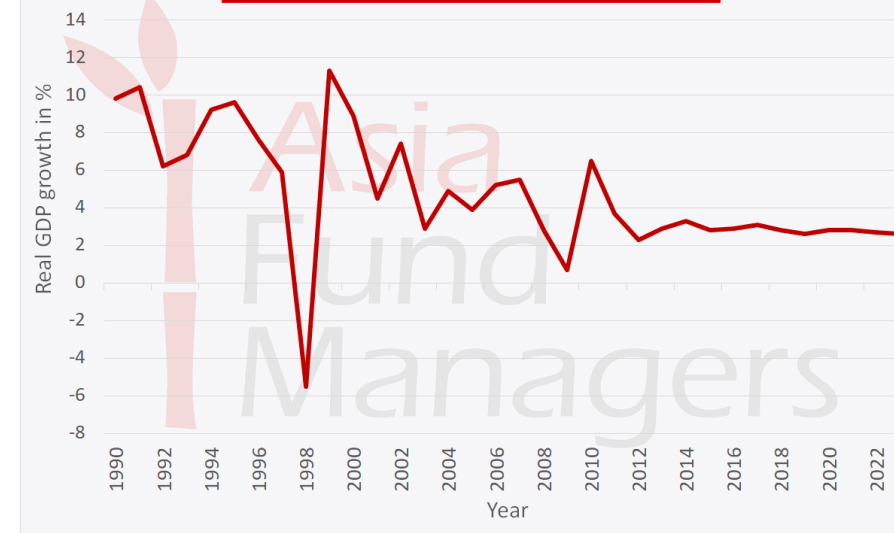
Praise: East Asian Miracle

- Japan and Four East Asian Miracle: Most successful development in postwar history.
- Michael Sarel (1996, IMF Economist) – “the largest and most populous of the continent has become richer faster than any other region of the world.”
- Why Miracle?
 - ✓ *Rapid economic growth (GDP, per capita GDP)*
 - ✓ *Persistence of rapid economic growth (an unprecedented long period of growth, > 30 years)*
 - ✓ *Achievement of economic parity*
 - ✓ *Political stability – “benevolent dictatorship”*
 - ✓ *Export-oriented industrial policy*
 - ✓ *Stable macro-economic management*

Japan: Real GDP Growth



Republic of Korea, Real GDP growth




Concept: “Rapid Growth”

- **Rapid growth**: “between 1960-1985, real income per capital increased more than 4 times in Japan and four tigers and more than doubled in the Southeast Asian NIEs. If growth were randomly distributed, there is roughly one chance in 10,000 that success would have been so regionally concentrated.” (World Bank, 1993).

- **Core Questions:**

- How did the countries in East Asia achieve economic miracle?
- How similar and different from Western countries?
- How is this growth related to their political systems?
- Why did the countries face economic crisis?



In your view, how
could Japan and 4
East Asian Tigers
achieve tremendous
economic success?
Discuss

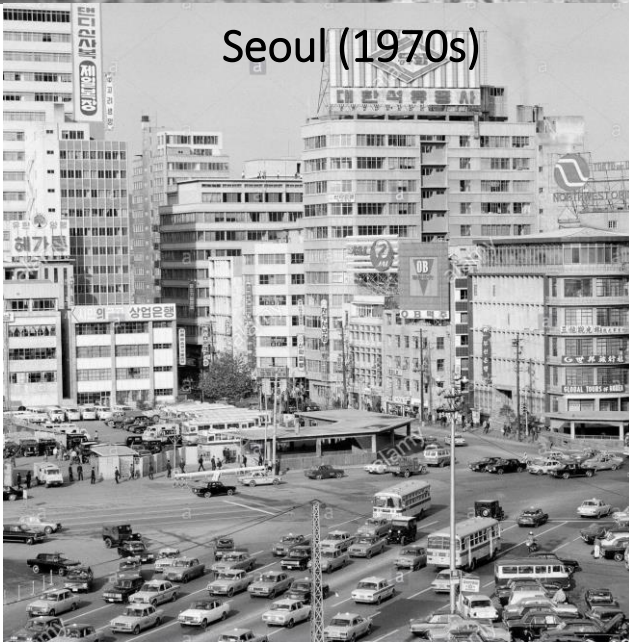
Seoul, Korean War (1950s)



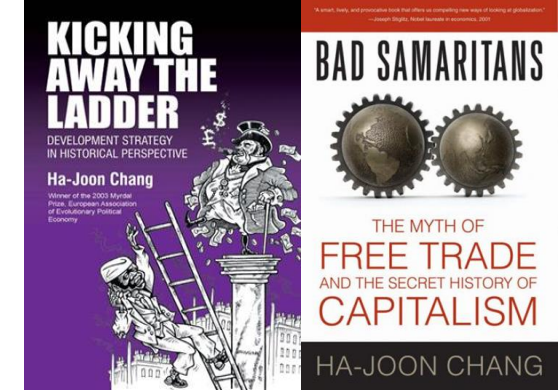
Military Coup
(1961)

Korean Villages (1960s)

Seoul (1970s)

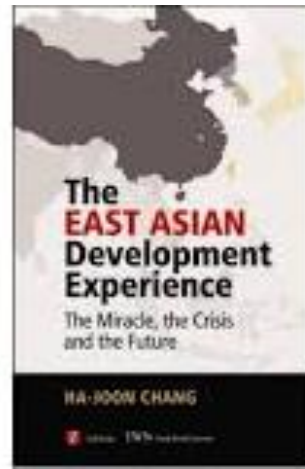


Better Initial Position? (1)

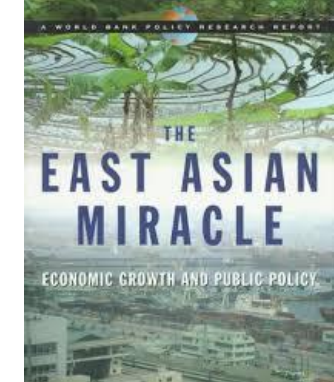


- Book <*Kicking away the Ladder*> - “major industrialized societies were not advocates of free trade and market economy → they used “interventionist” strategies as well.”
- Book <*Bad Samaritans*> - ““only unfettered capitalism and wide-open international trade can lift struggling nations out of poverty” is **a myth** – U.S., U.K. and even South Korea attained prosperity by shameless protectionism and government intervention in industry.”
- Book <*The East Asian Development Experience*> (2006) said?

Q. How much of their successes had been due to the beneficial ‘initial conditions’ they had historically inherited, rather than the policies and the institutions they had consciously adopted? (e.g. compared to Latin America)



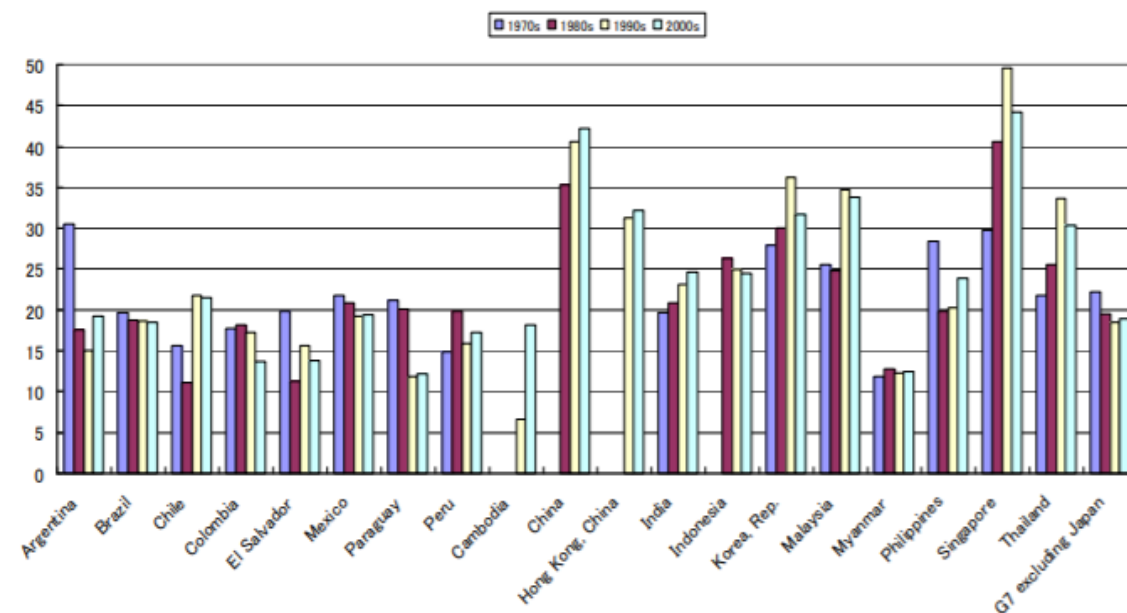
Stupid, It was market! - Market-Based Explanation (2)

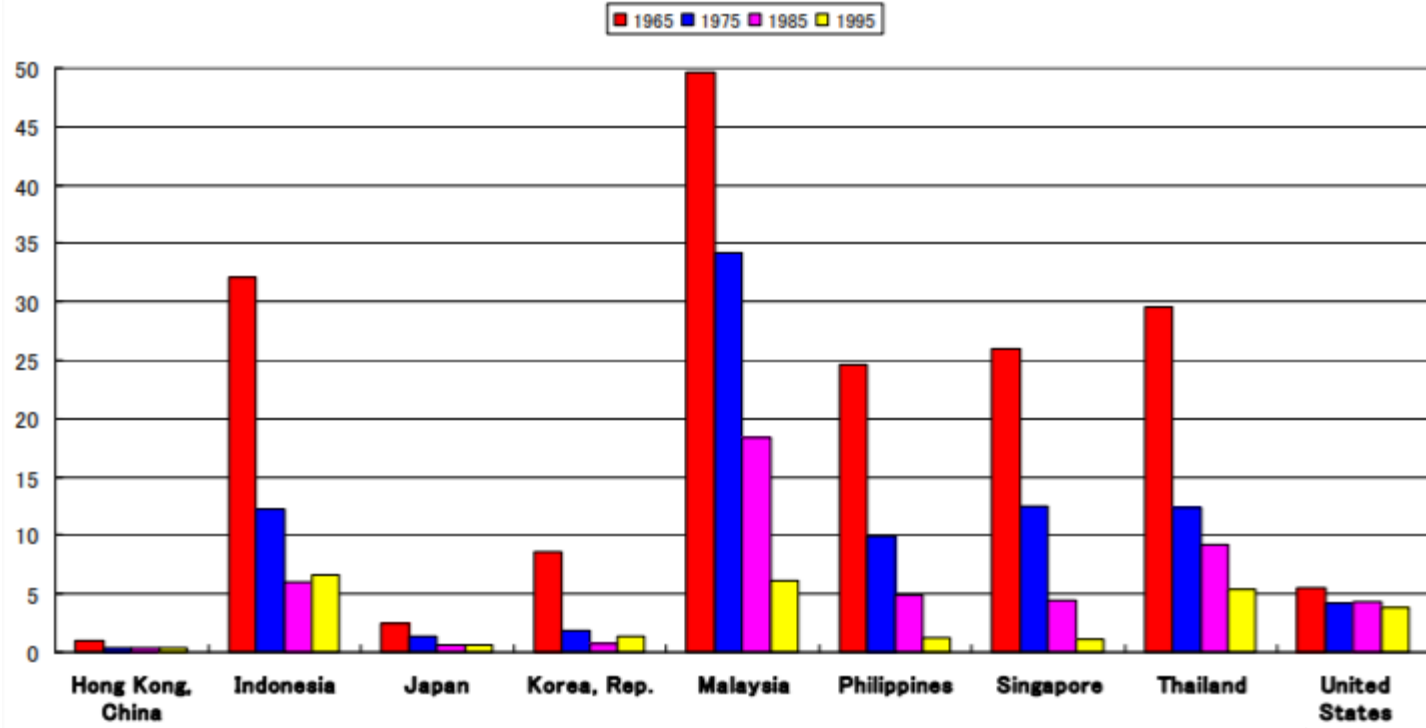


- David Henderson (2000) – “the success of East Asia’s main capitalist economies has been based on close adherence to market principle in general and to ‘low government intervention.’”

- Neoclassical perspective – “getting basics (the prices) right”
 - ✓ Provide a stable macro-economic environment (low national debt, low inflation)
 - ✓ Stable financial markets, high savings rates
 - ✓ Reliable legal framework to promote competition
 - ✓ International orientation (higher degree of trade openness)
 - ✓ Emphasis on human capital growth (well-educated labor force)
 - ✓ High level of bureaucratic quality / stable politics

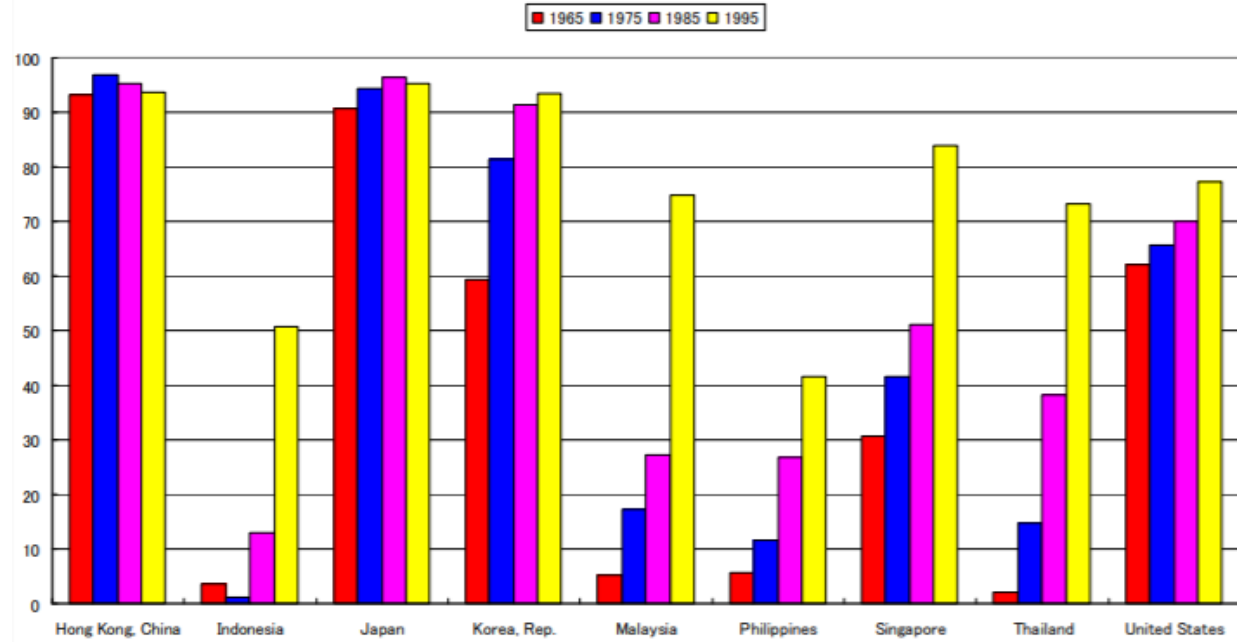
Savings rate to GDP (%)





Agricultural-Raw Material Exports (% of Merchandise Exports)

Manufacture Exports (% of Merchandise Exports)



Nope! – Developmental State (3)



Chalmers
Johnson

Alice Amsden

- Main argument (in East Asia, and later industrializers): the state's industrial policies and selective (or often extensive intervention) are inconsistent with the neoclassical view.



- Varieties of developmental state: (e.g.) Japan (less state ownership) | Taiwan (Small-and-Medium-Sized Enterprises)
- **Japan** – Little government ownership but close government-business relationships, administrative guidance on private business, elite bureaucrats, effective government ministries (e.g. MITI), big conglomerates, long-term economic planning, protected market

Neoclassical Response (4)

World Bank's 1991 Report – expands on the neoclassical view while clarifying the role of effective but limited government activism in rapid growth.



- To ensure adequate investment in people
- Provide a competitive climate for private enterprises
- Keep the economy open to international trade, and maintain a stable economy

But World Bank's fundamental position was – “**beyond these roles and functions, governments are more likely to do more harm than good unless the intervention is market friendly**”

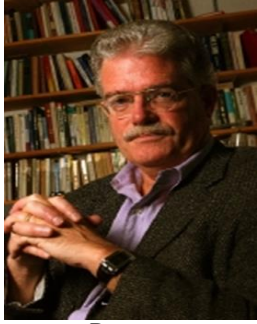
Additional Core of East Asian Miracle

Summarized Explanation from the Revisionists on East Asian Miracle

Core of East Asian Miracle

1. Colonialism
2. The Public Bureaucracy
3. State's Economic Policies
4. Relationship with the United States
5. Geopolitical consideration and international political economy
6. Culture
7. Type of Regime
8. Types of production organizations (business)

Does Colonial Legacy Matter?



Bruce
Cummings

- How colonial legacy influenced East Asian Miracle (debatable). (c.f.) French influence on Vietnam.
- Bruce Cummings and many other scholars support
- e.g. Japan - “the threat of western power” (fear of colonial subjugation) awoke Japanese leaders first in the 19th Century.
- Learning from western political/economic practices.
- e.g. Korea – during the period of Japanese rule, the Japanese system (experience) as forcefully implanted (Bruce Cummings – “colonial period Korea with an institutional template.”)

Does Competent Bureaucracy Matter?

- The power of public bureaucracy** - played a key role in economic development (Japan, South Korea, Singapore, for example).
- Chalmers Johnson (1995), *Who Governs Japan?* – Bureaucracy (discretionary power, administrative guidance, regulation, permission authority).
- 90% of national bills and policies were passed by bureaucrats | Monopolized important information | Armed with nationalism (national interest first) | Powerful institutions (Ministry of Finance, Economic Planning Board, etc.)
- Under Confucian culture, public jobs preferred – Recruited the best and the brightest from universities (e.g. Japan, South Korea, Singapore) – highly competitive exam

Does State Economic Policy Matter?

- State's economic and industrial policies – the state's capacity to raise and distribute financial resources was the core of the developmental state.
- Controlling interest rates and exchange rates through centralized bank.
- High level of savings (more than 30% on average, Korea 40% in 1980s, US lower than 20%, Hong Kong 33%, Singapore 55%).
- Strategy of promoting export-oriented firms (subsidizing to selected industries).



Relationship with the U.S.

- How could the relationship with the United States be beneficial to East Asian Miracle?



- ✓ Based on earlier example (Marshall Plan)
- ✓ Geopolitics of the Cold War
- ✓ Military and economic aids
- ✓ About 60% of total U.S. aids went to East Asia (75% of total imports of South Korea, 1953-1960)
- ✓ Possibility of alliance with foreign capital and production technology



- ✓ Accessibility to the U.S. Market
- ✓ Japan, Korea, Taiwan – were given broad one-way access to the U.S. market (part of U.S. foreign policy)
- ✓ Preferential tariff
- ✓ Low wage, labor intensive goods

Geopolitics, War, Global Economy



Korean War



Vietnam War

War Economy

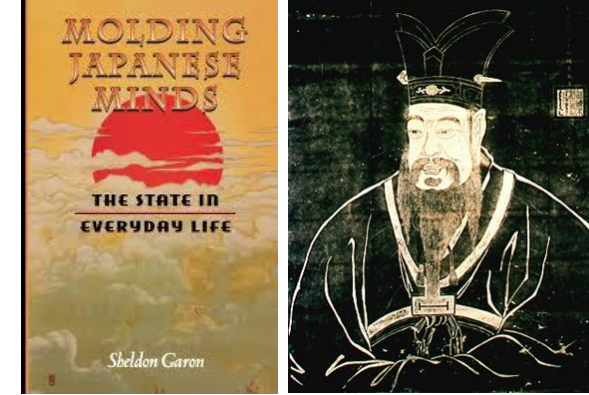
- ✓ U.S. military purchase from Japan during Korean war revived Japanese economy (war exports 510 million ~ 1.6 billion USD)
- ✓ Korea received about 50 million USD per year for 10 years
- ✓ Korean companies participated in construction works in Southeast Asia



Global Capitalism

- ✓ Global economic crisis since 1970s – labor shortage, high wages, environmental pollution, etc.
- ✓ Finding new market: East Asia (Korea, Taiwan, e.g.), repressive labor market, low-waged, disciplined and well-educated.
- ✓ Global construction market in the Middle East (remittance from the labor migrations – substantial economic effect on Korean economy in 1980s.

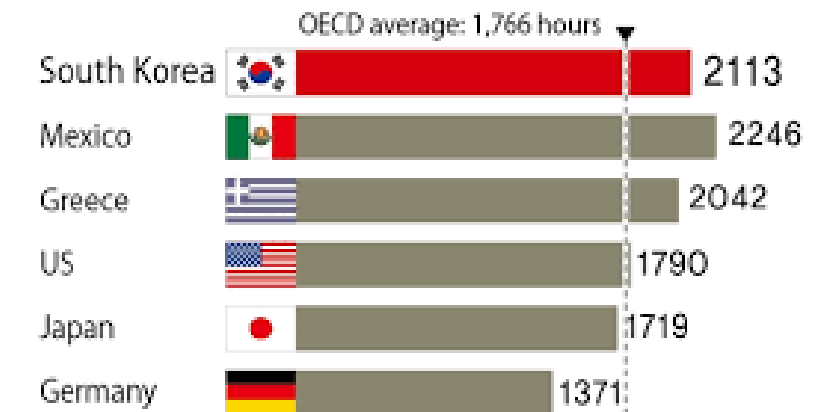
Does Culture Matter?



- Diligent workers – Confucian work ethic
- Culture of frugality – Saving | Investment for future generation
- Aspiration for education (higher education)
- Strong nationalism
- e.g. Japan – “Moral suasion” (basis of modernity) | Sheldon Garon (1998), *Molding Japanese Mind* (Princeton Press).

Annual working hours in OECD member countries

(As of 2015; unit: hours) Data: OECD



Do Types of Regime | Business Matter

- Types of Regime – ‘developmental regime’ (development and growth were top national priorities).
- Authoritarian (South Korea, Singapore, Taiwan) | conservative regime (Japan)
- Interventionist government – controlled labor, civil society (Mancur Olson’s ‘distributional coalition’ did not exist).

Production
organizations

Strategic Firms (Export-oriented, Hi-tech, Heavy Industries, e.g.) – benefited from the state (financing, licensing, protection, market promotion, etc).

Factory Protection | Agricultural Protection – Tariff, Taxation, Subsidies

Big business organizations (Zaibatsu, Japan; Chaebol, Korea)



MITSUBISHI



Discussion

- Does Vietnam share similar | different institutional background?
- Does Vietnam share similar | different international environment (or geography)?
- Does Vietnam share similar | different culture?

